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DEPARTMENT OF TRADE AND COMMERCE
DOMINION BUREAU OF STATISTICS - CANADA
INTERNAL TRADE BRANCH

Dominion Statistician: R.H. Coats, B.A., F.S.S.(Hon.), F.R.S.C.
Chief, Internal Trade Branch: Herbert Marshall, B.A., F.S.S.

ESTIMATED BALANCE OF INTERNATIONAL PAYMENTS FOR CANADA, 1926-1929

According to the Estimated Balance of International Payments statement compiled by the Dominion Bureau of Statistics, the year 1929 appears to have shown a reversal of the net outward capital movement which has been characteristic of Canadian international transactions for the last few years. In this statement an effort has been made to bring together all the debit and credit items of the nation's business for the years 1926 to 1929.

Canada's international buying and selling of commodities and services amounted to nearly $4 billions in 1929 as compared with $2½ billions for the foreign trade in commodities alone, which means that the so-called "invisible items" of our international business accounted for nearly 40% of the aggregate for all items.

Comparing the items which are included in this estimate the largest is, of course, the commodity trade which in the calendar year 1929 showed a debit or "unfavorable" balance of $83 millions. Among so-called "invisible" items debit balances included freight payments $38 millions, interest payments $216 millions, non-commercial remittances $9 millions and motion picture royalties $4 millions. Shipments of gold and subsidiary coin showed a credit balance of $47 millions, tourist's expenditures $188 millions, insurance transactions $23 millions, advertising $4 millions, capital of immigrants and emigrants $1 million and electrical energy $4 millions. When all debits and credits are totalled a debit item of $88 millions is necessary to balance the account. This item will be partly accounted for by the errors and omissions which are inevitable in all such calculations. It is believed, however, that some portion of the amount is due to net importation of capital into Canada during 1929.

ESTIMATED BALANCE OF INTERNATIONAL PAYMENTS, 1926-1929

(000's omitted)

	1926		1927		1928		1929	
	Exports Visible & Invisible	Imports Visible & Invisible	Exports Visible & Invisible	Imports Visible & Invisible	Exports Visible & Invisible	Imports Visible & Invisible	Exports Visible & Invisible	Imports Visible & Invisible
1. Commodity Trade -								
Recorded merchandise exports and imports	1,283,939	1,008,342	1,238,782	1,087,118	1,374,246	1,222,318	1,208,338	1,298,993
Deductions for Settlers' effects shown elsewhere and miscellaneous items	11,864	16,873	10,513	14,998	10,510	17,220	11,385	18,630
Total	1,272,075	991,469	1,228,269	1,072,120	1,363,736	1,205,098	1,196,953	1,280,363
Exports and imports of gold coin and bullion and subsidiary coin	79,563	47,126	49,359	44,220	107,613	40,178	51,112	3,746
Unrecorded imports of ships	-	1,000	-	269	-	4,000	-	4,000
2. Freight payments and receipts (not elsewhere provided for)	91,461	111,941	100,979	120,960	99,469	124,774	95,847	134,026
3. Tourists' expenditures	195,918	88,961	230,223	101,296	266,693	100,646	299,188	111,301
4. Interest payments and receipts	66,396	280,419	70,389	286,545	81,847	299,109	90,929	307,017
5. Non-Commercial Remittances	15,550	20,509	15,433	22,423	14,421	23,195	15,000	24,000
6. Expenditures of governments	11,948	10,863	11,850	11,751	11,819	11,030	11,750	11,300
7. Charitable and Missionary Contributions	814	1,878	873	1,766	900	1,800	900	1,800
8. Insurance transactions	15,342	22,198	25,234	24,716	43,963	21,302	45,000x	22,000x
9. Advertising	3,143	-	4,482	-	3,858	-	4,000	-
10. Motion picture royalties	-	3,500	-	3,500	-	3,750	-	3,750
11. Capital of immigrants & emigrants	9,636	13,396	10,132	11,521	11,250	10,219	11,250	10,493
12. Export and import of electrical energy	4,600x	89	4,798	87	4,000x	90	4,075	97
13. Difference between all exports and imports (representing (a) Canadian capital invested abroad in 1926, 1927, 1928 and outside capital invested in Canada in 1929, (b) errors and omissions).		173,097		50,847		164,378	87,889	
Total	1,766,446	1,766,446	1,752,021	1,752,021	2,009,569	2,009,569	1,913,893	1,913,893

x Approximate

DESCRIPTION OF METHOD OF CALCULATING FREIGHT PAYMENTS AND RECEIPTS FOR THE BALANCE OF INTERNATIONAL PAYMENTS

It is the intention of the Bureau, as time permits, to carry out improvements in methods of estimating the various items which enter into the balance of international payments statement. During the last year a careful study of freight payments and receipts led to considerable improvements in the method previously used. As a result new estimates were made back to 1926 and utilized in the present bulletin. A description of the method now in use follows:

Where a country values its imports on a C.I.F. basis the problem of estimating freight payments to outside nations for their shipping and railway services does not arise, since such expenses are included in the customs valuations. Canada, however, values its imports at their fair market value in the country whence exported at the place of direct shipment to Canada, hence freight charges are not included in the Canadian customs valuations and must be estimated as one of the "invisible" items of international transactions.

As to exports, Canada does not value these f.o.b. boundary but at the point of original shipment. Hence freight from the latter to the boundary must be estimated.

In general the above statements may be predicated of our imports and exports; but there are certain exceptions which must be noted before attempting an estimate of freight payments or receipts not already accounted for by inclusion in custom valuations. Some Canadian export commodities are sold f.o.b. destination and the customs valuation includes freight to the point of destination. This is true of such an important group as grain products. In this case some allowance should be made for freight credited to Canada in the customs valuations but eventually paid to transportation agencies in other countries.

Caution must also be exercised in applying the term "point of original shipment". For example, grain shipped from Port Arthur and Fort William via Buffalo has Fort William or Port Arthur as the point of original shipment; but in the case of grain shipped from Fort William and Port Arthur to Montreal and afterwards exported, Montreal becomes the point of original shipment for customs purposes, the freight from head-of-lakes to Montreal being included in the values shown in the customs invoice. In the first case grain carried from Fort William and Port Arthur in Canadian ships to Buffalo earns inland freight which is not included in customs figures, and in the second case the inland freight to Montreal is included in the customs figures.

With the above principles for guidance the following methods were adopted to estimate freight receipts and payments not accounted for in customs valuations:

A. Rail Freight Payments.- Tons of freight imported by rail are compiled by the Bureau. As these include only revenue freight some addition must be made for payments made abroad for transportation of commodities such as coal and steel rails used by Canadian railways themselves. The method adopted was to use import figures instead of revenue freight figures for coal and steel rails. Import quantities were multiplied by actual rail rates in force on the main coal-carrying railways between the principal United States coal fields and the Canadian boundary. For all other groups of commodities an estimate was made of the miles each class of freight would travel before reaching the Canadian boundary. Tons of freight received from foreign points were multiplied by the relevant item in the table of distances in order to arrive at ton miles, and the latter were multiplied by a yearly average rate per ton mile for that class in order to arrive at freight payments.

B. Rail and Inland Water Freight Receipts.- Traffic Reports compiled by the Bureau include figures showing (a) freight originating in Canada and delivered to foreign connections (rail and water) and (b) freight received from foreign connections destined for foreign points. The latter covers transit traffic which is a very important item in freight receipts. This transit traffic is heaviest on the lines running across south-western Ontario between Detroit and Buffalo and on the Canadian section of the line running between Chicago, Montreal and the New England States.

For all tonnage exported (including transit traffic) as shown in the traffic reports, with the exception of grain and grain products which are dealt with specially, an estimate has been made of the average number of miles each class of freight is carried to the border. Tons exported are converted into ton miles for each year and multiplied by the average yearly rate per ton mile in order to arrive atthe value of freight receipts.

For all groups except grain and grain products it is assumed that there are no difficulties with regard to point of original shipment or in regard to customs valuations (which would not be true if any invoices were f.o.b. point of destination). In the case of grain and grain products, since such difficulties do exist, special calculations were necessary.

Canadian shipping and railroad companies earn large sums annually for the carriage of export grain but far the greater portion of these earnings are included in customs valuations. It is only necessary, therefore, to take account of the "invisible" portion so far as a balance of international payments statement is concerned. The following is a list of customs ports of exit showing the geographical location of the point of original shipment for grains so far as customs valuations are concerned.

Customs Port of Exit	Point of Original Shipment
Montreal	Montreal
Quebec	Quebec
St.John, N.B.	St.John, N.B.
Halifax, N.S.	Halifax, N.S.
Vancouver, B.C.	Vancouver, B.C.
Prince Rupert, B.C.	Prince Rupert, B.C.
Coaticook, Que.)	
St.John, Que.)	Mostly Fort William and Port Arthur
Sherbrooke, Que.)	
Welland)	
Niagara Falls)	
Bridgeburg)	Georgian Bay ports
Prescott)	
Cornwall)	

"Invisible" items in inland freight are as follows: Working on the basis of the foregoing table and including also certain shipments in bond and transhipments from Buffalo, the "invisible" items in inland freight payments and receipts for grain are as follows:

Freight Earned by Canadian Carriers

1. United Stated grain in bond from Port Colborne to Montreal. Quantities obtained from Grain Trade Report. Rates from Transportation Branch, D.B.S.

2. United States grain in bond from Georgian Bay ports by rail to Montreal, American Seaboard, Canadian Seaboard, etc. Quantities from Grain Trade Report. Rates from Transportation Branch, D.B.S.

3. .Canadian grain Georgian Bay ports by rail to border points. Quantities from Grain Trade Report, Rates from Transportation Branch, D.B.S.

4. Canadian grain carried in Canadian ships from Fort William and Port Arthur to Buffalo. Quantities and rates from Transportation Branch, D.B.S.

5. Canadian grain from Fort William and Port Arthur by rail to Coaticook, etc. Quantities from Grain Trade Report, Rates from Transportation Branch, D.B.S.

6. United States grain in transit. Traffic Reports and Transportation Branch, D.B.S.

Payments to United States

1. Grain shipped from Fort William and Port Arthur to Canadian ports in U.S. vessels. Grain Trade Report.

2. Transhipments of Canadian grain from Buffalo to Montreal in U.S. vessels. Transportation Branch.

C. Ocean Freight Payments and Receipts.- Tons of exports and imports loaded and unloaded at Canadian ocean ports are obtained from the annual reports on shipping issued by the Department of National Revenue for Canadian, British and foreign ships. It is very difficult to get a reliable figure for average ocean freight rates. That used in these calculations was obtained by circularizing a number of shipping companies doing Canadian business and securing data as to tonnage shipped and total freight received. In this way an average rate of $7.50 per ton was arrived at for the

year 1929. The Economist's index of ocean freight rates was used to correct this figure for earlier years.

An addition to the payments made by Canada is necessary for imports from overseas via United States ports. The estimated tonnage in this category was multiplied by the same figure as for other ocean freights.

D. Port and Other Expenses of Shipping.- These expenses must be deducted from the freight paid to British and foreign vessels as an "invisible" item of purchases of Canadian goods and services from abroad and from receipts by Canadian vessels in foreign ports as an "invisible" item of purchases of foreign goods and services by Canadians. They are extremely difficult to estimate. Usually a flat proportion of the gross earnings is deducted to cover them, one-fifth being commonly used. A detailed study was made for the Bureau by Professor Taylor for the year 1925. Statistics of the principal ports were examined, the actual harbour and pilotage dues paid in each port being estimated for all non-Canadian shipping. Loading and unloading expense was taken at twenty-five cents a ton cargo; brokerage and commission at five cents a ton net register; supplies purchased at ten cents a ton net register; and expenditures by crews at one dollar a head. The final result proved to be 35% of the estimated freight earnings for Canadian cargo of British and foreign ships in 1925. One-third of the earnings of these ships and of Canadian ships in foreign ports has been deducted in our calculation of freight receipts and payments.

TABLE OF FREIGHT RECEIPTS AND PAYMENTS

1926 - 1929
(000's Omitted)

RECEIPTS

	Inland Freight Payments to Canada including Transit Traffic	Earned by Canadian Ships	Total
	$	$	$
1926	82,409	9,052	91,461
1927	91,183	9,796	100,979
1928	90,139	9,330	99,469
1929	86,297	9,550	95,847

PAYMENTS

	To U.S. Railroads	Paid to British & Foreign Ships	On Acct. of ocean Imports via U.S.	Total
	$	$	$	$
1926	85,251	25,415	1,275	111,941
1927	90,292	29,191	1,477	120,960
1928	94,874	28,400	1,500	124,774
1929	104,476	28,050	1,500	134,026

CANADA

DEPARTMENT OF TRADE AND COMMERCE

DOMINION BUREAU OF STATISTICS

INTERNAL TRADE BRANCH

ESTIMATED BALANCE
of
INTERNATIONAL PAYMENTS

for

CANADA

1926 - 1930

Together with Description of
Methods used

by J. F. Parkinson (Ed.)

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(Issued February 9th, 1932)

Dominion Statistician: R.H. Coats, B.A., F.S.S.(Hon.), F.R.S.C.
Chief, Internal Trade Branch: Herbert Marshall, B.A., F.S.S.

NOTE - This bulletin is the result of investigations carried on at intervals during several years. The staff of the Dominion Bureau of Statistics was greatly assisted through valuable contributions made by Professor F.A. Knox of Queen's University, and Professor K.W. Taylor of McMaster University. Special mention should be made of the work of Professor J.F. Parkinson of Toronto University, who spent several months in the Bureau working on this special study, and who, besides making original contributions, has consolidated all available materials into this bulletin.

ESTIMATED BALANCE OF INTERNATIONAL PAYMENTS FOR CANADA, 1926-1930

The estimates of the international balance of payments for the year 1930 are presented herein together with revised estimates for the four previous years. The most noticeable features of the 1930 statement are the continued reduction in the volume of merchandise trade, the alteration in the gold movement and the unfavourable balance, including all items visible and invisible, of approximately $160 millions. The obvious inference to be drawn from these factors is that Canada has continued to receive foreign capital imports, on balance, either in the form of loans directly floated abroad or as foreign investments in Canada or both. This inward movement of capital, which recommenced in 1929, is in marked contrast to the export of capital which took place in differing degrees in the period 1923-28, under the influence of a succession of favourable balances of current payments.

Analysis of the individual items of international receipts and payments for 1930 reveal little of significance. Debit balances were shown by freight payments ($32 millions), interest payments ($184 millions), immigrants' remittances ($9 millions) and movements of gold and subsidiary coin ($14 millions), to name only the more important. Credit balances were indicated by the tourist traffic, Canada's principal invisible export ($166 millions), insurance services ($7 millions) and smaller net gains on account of government receipts, reparations, immigrant capital, etc.

More significant, of course, are the alterations in the various items in the statement as compared with the estimates for the previous year. Here the tremendous changes wrought in Canada's international transactions in goods and services by the world depression which began at the end of 1929, and by the difficulties involved in the marketing of wheat, are apparent.

Merchandise exports fell from $1,200 millions in 1929 to $900 millions in 1930, using approximate figures. The causes of this decline are too well understood to detain us here; added to the difficulties of marketing the wheat at remunerative prices, Canada was naturally affected by the downward trend, world-wide in its incidence, of the prices of all products, particularly of those primary and agricultural commodities of which our exports are so largely composed. In actual fact, a preliminary investigation would appear to indicate that the decline in the value of exports for 1930, which is general to the whole list of commodities as well as to farm products, is largely a price decline. That is to say, if we eliminate the fluctuations in prices by revaluing the quantities exported in the fiscal year ending 1931 at the export prices prevailing in the previous fiscal year, domestic exports would show a decline of only 13.3% as compared with a decrease based on declared values of 28.6% (or roughly 25% for the calendar year). (1)

(1) See preliminary report on the Trade of Canada, 1930-31, published by this Bureau.

CANADA'S ESTIMATED BALANCE OF INTERNATIONAL PAYMENTS, 1926-1930.
($000's omitted)

	1926		1927		1928		1929		1930	
	Exports Visible and Invisible	Imports Visible and Invisible	Exports Visible and Invisible	Imports Visible and Invisible	Exports Visible and Invisible	Imports Visible and Invisible	Exports Visible and Invisible	Imports Visible and Invisible	Exports Visible and Invisible	Imports Visible and Invisible
	$	$	$	$	$	$	$	$	$	$
1. Commodity Trade - Recorded merchandise exports and imports	1,283,939	1,008,342	1,238,782	1,087,118	1,374,246	1,222,318	1,208,338	1,298,993	905,370	1,008,479
Deductions for settlers' effects and other non-commercial imports	-12,326	-21,774	-11,020	-22,504	-10,926	-21,395	-11,679	-24,614	-10,957	-23,814
Unrecorded imports of ships	-	24	-	1,860	-	19,230	-	19,420	-	7,470
Real Total of Commodity Trade	1,271,613	986,592	1,227,762	1,066,474	1,363,320	1,220,153	1,196,659	1,293,799	894,413	992,135
2. Exports and imports of gold coin, bullion and subsidiary coin	80,131	47,126	64,231	31,257	107,614	39,659	50,598	3,746	25,343	39,062
3. Freight payments and receipts n.o.p.	88,714	106,288	189,826	109,140	88,266	115,433	85,541	130,855	68,815	100,908
4. Tourist expenditures	201,167	98,747	238,477	108,750	275,230	107,522	309,379	121,645	279,238	113,292
5. Interest payments and receipts	55,452	223,639	64,885	235,052	80,966	246,916	87,886	258,907	88,220	272,586
6. Immigrant remittances	15,550	20,509	15,433	22,423	14,421	23,195	14,036	23,385	14,000	23,000
7. Government expenditures & receipts	11,948	10,863	11,850	11,751	11,819	11,030	11,750	11,300	11,750	10,379
8. Government receipts, reparations	1,757	-	6,791	-	4,688	-	4,325	-	4,000	-
9. Charitable and missionary contributions	814	1,878	873	1,766	1,373	1,800	900	1,800	900	1,800
10. Insurance Transactions	10,835	23,827	19,194	29,486	35,761	28,790	31,990	24,418	29,483	22,138
11. Advertising Transactions	3,143	4,500	4,482	4,800	3,858	5,000	4,000	5,280	4,000	6,000
12. Motion picture royalties	-	3,500	-	3,500	-	3,750	-	3,750	-	3,750
13. Capital of immigrants and emigrants	14,945	14,689	14,545	12,611	14,783	11,178	14,117	11,496	11,083	9,424
14. Earnings of Canadian residents employed in U.S.A.	10,000	-	11,000	-	13,725	-	13,725	-	3,696	-
15. Exports and imports of electrical energy (1)	4,600	89	4,798	87	-	-	-	-	-	-
16. Difference between all exports and imports (2)	-	228,422	-	137,050	-	201,398	65,475	-	159,533	-
Total	1,770,669	1,770,669	1,774,147	1,774,147	2,015,824	2,015,824	1,890,381	1,890,381	1,594,474	1,594,474

(1) Included in Commodity Trade since 1928.
(2) This item represents (a) Canadian capital invested abroad in 1926, 1927, 1928, and foreign capital invested in Canada in 1929 and 1930, and (b) errors and omissions.

Perhaps the best illustration of the special difficulties presented to Canada by the slump in world prices is provided by the following table. This shows that Canada, in common with most countries whose exports are made up largely of primary products, received a much greater reduction in the prices of her export commodities than the compensating decline in the prices of goods which are normally imported.

INDEX NUMBERS OF EXPORT AND IMPORT VALUES(2)

(CANADA'S FOREIGN TRADE)

(Base 1931=100)

		EXPORTS	IMPORTS
Calendar year	1926	147.0	131.7
	1927	144.0	127.0
	1928	137.6	127.3
	1929	136.9	122.9
	1930	117.2	115.1

In other words, the purchasing power of Canada's exports showed a marked decrease in 1930, a fact which helps to explain the persistence of the unfavourable balance of merchandise trade which was first displayed in 1929.

At the same time, the actual merchandise balance in 1930 showed practically no change, since imports registered a similar decline of $300 millions from the 1929 high of approximately $1,300 millions to $1,000 millions. The excess of imports was therefore roughly $100 millions, as in 1929.

As in the previous year, no compensation for the unfavourable balance of merchandise payments can be looked for amongst the "invisibles"; on the contrary the net receipts from the tourist traffic were reduced by $22 millions in 1930, and the principal invisible payment, that for interest and dividends on foreign investments in Canada, showed a higher debit balance of $184 millions which is some $13 millions more unfavourable than in 1929.

This is to be expected in the nature of such payments which represent, in large measure, the fixed interest charges on bonds and debentures held abroad, in which no important defaults have occurred. Increasing foreign investments in Canada required an increase in service charges. The declining surplus from merchandise exports, out of which a large portion of these payments are ultimately made, created serious problems of international financing for many countries in 1930. It so happens that for Canada, however, no insurperable difficulties occurred because of the assistance she received, on international account, from foreign loans and investments.

Freight payments in 1930 were less unfavourable than in 1929 by $13 millions by reason of the considerable reduction in imports from the U.S.A., on which the freight costs constitute the greater part of Canada's total freight payments. Earnings of Canadian residents who cross into the U.S.A. daily for employment there registered a decline of $10 millions as a result of the inactivity of the American automobile business. Finally the international gold movement showed a net reversal of $61 millions; more specifically, a net export of $47 millions in 1929 had become a net import of $14 millions in 1930.

It is this phenomena of gold imports which probably holds within it the most significant indication of the changing movements in Canada's international transactions in goods and services in 1930. Before proceeding to a discussion of this aspect of the situation it is necessary to examine the statements of international transactions for the earlier years shown in the table. As previous estimates have pointed out, the chief feature of each of these earlier statements is the regularly recurring net credit balance, made possible largely by the surplus of merchandise exports over imports. Thus for the three years 1926-28 the excess of exports over imports were $285 millions, $161 millions and $143 millions respectively.

Correspondingly, the surplus of receipts (visible and invisible) over payments, excluding the movements of short and long term capital, were $228 millions, $137 millions and $201 millions. It was then argued that since as a matter of practice, and assuming normal exchange movements, there cannot be persistent lack of balance in the international transactions of a country, there must have been a net outward movement of capital from Canada. Owing to the necessarily hypothetical character of much of the data which serves as a basis for our calculations and estimates, it could not be asserted that the surpluses shown during these years represented the actual net movement of capital funds out of Canada. Separate calculations made at the time, however, did suggest that undoubtedly

(2) Prices and Price Indexes 1930, D.B.S.

the growing export of Canadian capital, whether in the form of short term investments in New York or by the purchase of foreign securities abroad, exceeded the importation of foreign capital into Canada.

In 1929 the exports of Canada declined drastically by $167 millions. Imports in that year on the contrary were increased by $73 millions to a new high level, so that a decided shift in the balance of payments took place. Or, taking into account the invisible items as well, a surplus (of all exports) equal to $201 millions in 1929 became a deficit of $65 millions in 1930, involving a real change in the balance of $266 millions. This turnover, considered in the light of the total of Canada's international transactions (approximately $3,800 millions in 1929) suggests a transfer problem of some magnitude. How was it possible for Canada to continue to pay for her merchandise imports and the relatively fixed sums due on the invisible services, at a time when the chief supply of foreign funds, constituted by the merchandise exports, had diminished so greatly?

That the difficulty existed is evident if we examine the state of foreign exchanges. Generally speaking, the foreign exchanges were at a premium during 1929 and the early part of 1930, the price of New York funds being for a considerable period beyond the gold export point. Despite the correspondingly increased cost of foreign purchases caused by the higher price of foreign exchange, imports, as explained, did not show any decrease until 1930, when the reduction matched that of the exports. Similarly, it is quite clear from the statistics shown in the Summary Balance of Payments that the trade deficit of 1929 was not counterbalanced by an export of gold; on the contrary, the net outward movement of the metal in 1929 was only $47 millions, a reduction of $20 millions on the net outward flow for 1928. Parenthetically it is interesting to observe that during this period of restricted bullion gold exports the stimulus provided by the premium on gold (expressed in terms of the foreign exchanges) was sufficient to divert the Canadian output of quartz gold to foreign purchasers in the United States instead of the Canadian Mint, to which most of it nominally goes. The increase in exports of quartz gold in 1929 was one of more than $20 millions above the normal export of $8-$10 millions.(1)

No such tendency manifested itself in the case of bullion gold and gold coin, the stocks of which displayed an apparent passivity throughout the period. The only other source of foreign funds available to offset the deficit in the balance of payments for 1929 is, of course, that of foreign capital imports. There is only a limited amount of statistical information as to capital movements, but were all the details known (and some of the movements are incapable of actual measurement) it is believed they would show that the net movement of short and long term capital was inward. It is quite apparent that with the high rates payable for foreign funds in 1929, some diminution must have taken place in what had been, until then, a considerable export of Canadian funds for the purchase of foreign securities on the New York Stock Exchange, a development which came to an end, in any case, with the spectacular fall in such values in October, 1929. It is equally certain that a good deal of the short term deposits held by Canadians in foreign money markets was repatriated during this period, though here again exact information cannot be available.

The short term funds employed abroad by the Chartered Banks, and kept largely in New York, fell steadily from $188 millions at the beginning of 1929 to $98 millions at the end of the year, a reduction of $90 millions in the twelve month period.

Indeed it can be fairly remarked that the Canadian holdings of foreign investments and short term balances have acted as a shock absorber in reducing the effects of the mal-adjustment in Canada's balance of international payments during 1929 and in 1930.

For the rest, the position has been made easier by the continuation of the movement of foreign capital into the country, which, over the whole period, has more than counterbalanced the diminution in the supply of foreign funds which resulted from the deficit in the merchandise and invisible balances of Canada. Thus the table of estimated foreign investments in Canada(2) demonstrates an increase of $233 millions in the total during 1929, ~~of~~ which roughly indicates the influx of foreign capital. Against that must be set the corresponding increase in Canada's investments abroad, which rose by $37 millions during the same period.

The net inflow of slightly less than $200 millions of long term capital, added to the return of $90 millions of short term foreign balances of the Banks may be said to have offset the turnover in the balance of the non-capital items (visible and invisible) which amounted, in 1929, as stated, to $265 millions.

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(1) See Introduction.
(2) See table under Section 5 - Foreign Investments in Canada.

Turning to 1930 it is clear from a preliminary examination of the data relating to capital movements that while the circumstances were somewhat different, the importation of foreign capital again assumed considerable importance and assisted in the maintenance of equilibrium in the balance of international payments.

There is no evidence in the monthly statements of the Chartered Banks of any reduction in the short term foreign assets; indeed these are already probably near their necessary minimum, having regard to the normal operations of the Banks.

It has not been possible to calculate the net increase in foreign investments in Canada during 1930, but from the table below, which shows only one phase of the capital investment, it appears that the interest in Canadian investments shows little abatement.

TOTAL PUBLICLY OFFERED CANADIAN SECURITIES PURCHASED(1)

(Net nominal capital, less refunding)

(000,000's omitted)

	In U.S.A.	In Great Britain
	$	$
1926	296.59	29.16
1927	316.80	34.02
1928	237.36	99.63
1929	289.69	74.12
1930	281.29	17.01

Some light is thrown on the approach to equilibrium in the balance of payments in 1930, by the change in the direction of the monetary gold movements, or by the state of foreign exchanges, both of which reflect the influx of foreign funds. In the early part of 1930 the Canadian dollar was quoted at a slight discount in New York, a condition lasting, however, only until May, when it returned to par. From then onward the demand for Canadian dollars in New York was sufficient to maintain the exchange at a premium of approximately one per cent, until early in December. Coincidental with these fluctuations in the exchange, the gold movement to and from Canada was sluggish in the first six months of the year, but showed a considerable inward movement in the September and December quarters, nearly $15 millions of gold coin and bars being imported in August alone, and a slightly larger amount was imported in the course of the next three months.

In December, New York balances again went to a premium and the net export of gold was approximately $13 millions in that month. Considering the year as a whole the imports of gold coin and bullion and other coin exceeded the exports by $13.7 millions, a condition which has not existed since 1925.

In other words, the evidence of the fluctuations in the exchange and in the gold movements throughout the year would seem to indicate that once the spring seasonal imports were financed there was no evidence of any maladjustment in Canada's balance of international transactions. On the contrary, the demand for Canadian funds strengthened the position of the dollar and necessitated the remittance of gold to Canada from the United States in the financial markets of which country these influences are mainly felt.

The fact that this occurred during a period when the balance of current payments (excluding only capital items) was increasingly unfavourable, warrants the conclusion that the influx of foreign capital must have been both persistent and of considerable dimensions.

It is impossible to attempt to correlate the fluctuations in the gold and foreign exchange movements with the influx of foreign capital. The monthly data of capital fluctuations, etc., is not available. The tendency, however, is self-evident and by no means unfamiliar in Canadian economic development.

The response of the gold flows to the relatively slight changes in the foreign exchanges in 1930 presents, of course, a problem rather more complex than the discussion above would appear to recognize. Not all of the inflow was automatic and explainable in terms of the favourable balance of payments (if capital items be included therein) and the strength of the Canadian dollar on foreign money markets. It is equally possible that purchases of gold were made abroad by the Chartered Banks, at little or no profit, for the purpose of strengthening their reserves.

(1) Totals for both countries include a small amount of Newfoundland securities

Even this operation, however, which involves a depletion of the foreign balances of Canadian banks, would only become possible at a period when the foreign balances were ample--when, in short, the balance of transfers on international account was sufficiently favourable to Canada to sustain these foreign purchases without depressing the external value of the currency.

Finally, another explanation of the events of 1930 suggests itself. The considerable degree of interest in foreign investments displayed by Canadian investors in the last five or six years has already been indicated. The favourable state of the balance of payments throughout that period and the easy money market rates prevailing would both operate to stimulate an outward movement of capital for the purchase of foreign securities. For example, the estimated Canadian investments abroad, which stood at $1,139 millions at the beginning of 1926, had increased to $1,739 millions by January, 1929, a net increase of $600 millions in the course of three years. It is quite evident from the fragmentary data which is available that this outward movement of capital showed a great slackening in 1929, the increase in foreign investments being less than $40 millions in that year. It is possible (although the estimates to support this conclusion have not yet been made) that some liquidation of Canadian capital invested abroad took place in 1930. Such an eventuality would tend still further to facilitate the restoration of that equilibrium in the balance of international payments which the declining merchandise exports might otherwise have threatened.

DEDUCTIONS FROM COMMODITY TRADE STATISTICS

SETTLERS EFFECTS, ARTICLES AND ANIMALS FOR EXHIBITION PURPOSES AND OTHER NON-COMMERCIAL IMPORTS AND EXPORTS

It will be observed in the Summary Estimated Balance of Payments that deductions have been made from the totals of the recorded merchandise exports and imports. The explanation of these deductions, the effect of which is to reduce the value of the total trade of Canada by roughly thirty to thirty-five million dollars, is as follows:-

The Canadian import statistics are stated to include all goods "entered for consumption", i.e., goods that have passed through the customs into the possession of the importer, whether on payment of duty or free of duty. Rightly so, for our purpose, the returns do not include transit trade, nor goods when they first go into bonded warehouses. They do include, however, certain imports which are not purchased by Canadian nationals, but are in the nature of gifts and donations, and similar non-commercial items for which no international transfer of funds is necessary. Such items must accordingly be deducted from the recorded value of merchandise imports and exports. The list includes, inter alia:- the value of settlers effects, articles to be ex-warehoused for ships' stores, advertising material presumed to be received gratis, cinematograph films for which payment is ultimately made on a royalty basis and accounted for separately in the balance of payments, donations of articles from abroad, etc. The separate values of each are abstracted from the trade returns, and the totals deducted from the recorded values of merchandise imports and exports. In addition, adjustments have to be made for articles and animals imported and exported for exhibition purposes, an item hitherto overlooked in our computation of the real balance of merchandise trade.

These latter commodities are imported free of duty, if used for exhibition purposes, on the understanding that they will be exported or otherwise dealt with within three months, and are accordingly recorded as imports ex-warehouses for exhibition purposes. If these articles or animals are subsequently sold in Canada, a return must be made, and duty paid, and the commodities are again recorded as imported ex-warehouse for consumption purposes under the appropriate classification. To avoid this obvious duplication we deduct the first value from inports and (in the case of exhibition animals) from Canadian exports.

The effect of these reductions in the totals of merchandise trade in 1930 is to reduce the imports by nearly $24,000,000, and the exports by approximately $11,000,000. On the other hand, an addition must be made to the recorded import statistics to account for the importation by Canadian Companies of ships, discussed in the following section:-

Incidentally, it may be noted here that, beginning with the calendar year 1928, the values of the trade of Canada in electrical energy are included in the summary of merchandise imports and exports. The separate recording of this item in the balance of payments (item 15) ceases, therefore, in that year.

Unrecorded Imports of Ships.

The fact has already been mentioned that the Customs' statistics of imports and exports, do not provide a complete account of Canada's purchases and sales abroad of commodities. The case of imported ships provides another important illustration of this, and in the absence of detailed statistics, estimates must be made as to the value of this trade. The only vessels, the purchases of which are recorded in the Canadian Trade Returns, appear to be those imported for use in the coasting trade from countries other than the United Kingdom, the customs classifications of which are as follows:-

(1) "Ships built in any foreign country, if British registered since September 1, 1902, on application for license to engage in the Canadian coasting trade."

and

(2) "Vessels, dredges, scows, yachts, boats and other water borne craft, built outside of Canada for use in Canadian waters (not including vessels engaged in the coasting trade, nor vessels in transit between Canada and any place outside thereof)."

Imports of small pleasure and sports boats, skiffs, canoes, launches, etc.--are all recorded--but the totals under (1) and (2) above are so small ($263,000 in 1930, $504,000 in 1929) that it is perfectly clear that in this period, which saw, for example, the purchase by the C.P.R. of several Empress or Duchess liners, the purchases of new vessels from Great Britain are not included.

It would seem from the customs classification above that all vessels for use in the foreign trade, whether produced in Great Britain or elsewhere, are excluded from the import statistics, and even vessels for coastwise service, if constructed in Great Britain, are similarly excluded. Foreign built ships, if entering Canada for use in the coastal or lake trade must pay duty and transfer to a Canadian port of registry, and it is fairly clear that the recorded imports of ships, which show a negligible amount from Great Britain and the balance of $250,000 from the United States in 1930, are of this category, - foreign built and for use in coastwise or lake trade

The great majority of shipping purchases by Canadian companies, i.e., those of British and foreign construction for use in international trade, and those British manufactured ships intended for coastal trade, are not shown in the import returns.

The theoretical explanation of this exclusion may be that it is a distortion of the facts to consider these ships as Canadian imports when they are not physically imported into Canada and earn all their revenue 'outside' Canada in international trade. This explanation, of course, cannot apply to British built ships imported for use in the coastal traffic. It is clear, however, that from the point of view of Canada's balance of international transactions, such purchases involve a transfer abroad of Canadian funds. Since we estimate the earnings of Canadian vessels as a 'receipt' we must equally charge the foreign cost of these vessels as a 'payment'.

Similarly old ships purchased or sold abroad are not recorded in the trade returns and the values (which appear to have been very small in recent years) must also be estimated.

In the past, this Bureau has circularised Canadian Shipping Companies for their purchases of foreign ships, new and old. What information we have (by no means complete for all years 1926-30) suggests that the use of the statistics given in the British Trade Returns relating to 'ships and boats exported to Canada, new, complete' would be the most satisfactory, since practically all new vessels purchased by the large Canadian lines are built under contract in that country. The British figure for 1929 (converted into dollars) of $19,228,700 compares favourably with that obtained from the shipping companies, and we accordingly use that figure as a measure of the invisible import of ships revising in the same manner the estimates published for previous years.

The British statistics for 1930 are not yet available, but from information received from the Canadian companies, we judge that their purchases of ships show a considerable decline on the 1929 figures, and estimate the payments to be $7,470,000 for that year.

IMPORTS AND EXPORTS OF GOLD COIN AND BULLION AND SUBSIDIARY COIN.

Gold, of course, is one of Canada's important metal products, and as such figures prominently amongst the export values under the classification "gold bearing quartz, nuggets and bullion obtained direct from mining operations". In addition to this, however, there is a considerable international traffic, affecting Canada, in gold in the form of bullion, bars, and coin, which is not shown in the merchandise trade returns. This gold movement arises from the fact that in a country, such as Canada, where the monetary standard is based upon gold, gold has an additional function, - that of the money metal, of a medium of exchange. In other words, movements of monetary gold are dictated by considerations arising from the exigencies of the financial mechanism, by the state of the Chartered Banks' or Dominion Notes' Reserves, by the foreign exchanges, or, more comprehensively, by changes in Canada's balance of international payments.

The operation of the gold standard postulates the unimpeded movement of monetary gold internationally. Because of the light which the details of such gold movements throw upon certain phenomena referred to above, it is expedient, therefore, to keep separate record of imports and exports of monetary gold. The earlier discussion on the equilibrium of the balance of payments in 1930 illustrates the importance of this knowledge.

The figures recorded in the Summary Balance of Payments (item 2) are taken from the Customs' reports and adjusted slightly for unrecorded gold imports and exports, and represent the international movement of monetary gold coin and bullion and subsidiary coin.

Of course, the distinction between exports of monetary and commodity gold in the Trade Returns is somewhat artificial, since both fulfil ultimately the same purpose, that of paying for our imports of goods and services. There can be no valid reason for differentiating between gold bullion obtained direct from mining operations and sold abroad to, say, the U.S. Assay Office at New York, and gold produced in Canada, minted at Ottawa, and then withdrawn by banking institutions, for example, and exported to New York. The export returns for the period 1929-30 provide a significant illustration of this thesis. The monthly returns for late 1929 and the spring of 1930 show a relative immobility of monetary gold movements outwards, but exports of quartz gold increased from an average of $8-10 millions in previous years to almost $30 millions in 1929 and the Ottawa Mint was for a time relatively idle.

There is in general, however, a greater degree of rigidity in direct gold exports, and a greater sensitiveness in monetary gold movements to alterations in the balance of payments. For that reason, it is the movements of the latter type which are most illuminating for the purpose of analysis, and separate records are therefore kept.

FREIGHT PAYMENTS AND RECEIPTS

Many countries value their imports and exports on a C.I.F. basis, i.e., the value of the goods at the point of entry into (or export from) the country, which value will include the cost of freight and insurance, etc., to the national boundary. In these cases the problem of estimating the freight payments and receipts made to (or received) from foreign countries does not arise in quite the same form as with Canada since such expenses are included in the recorded valuations of foreign trade. Canada, however, values its imports at their fair market value in the country whence exported at the point of original shipment to Canada. The freight charges paid on imports from this point of original shipment to a Canadian port or boundary point are not included in the Customs Import Valuations, and must be estimated for inclusion as one of the 'invisible' items in the balance of international transactions. Similarly in the case of exports, Canada does not value these f.o.b. boundary (or port) but at the point of original shipment, so that freight from this point of origin by rail to the boundary (or port) must also be estimated.

It is obvious that the results of these calculations of freight payments have a value quite apart from the use to which they are put in the balance of international payments.

1. They provide a more accurate picture of the real values of exports and imports, which the present recorded values do not give. Thus, Canadian imports are higher by the amount of freight paid thereon to United States railroads and to British and foreign vessels which carry the goods to our ports and boundaries. These expenses are

included in the real purchasing price. For the same reason, Canadian exports are higher by the amount of freight earned by Canadian railroads and lake steamers, etc., which carry the goods from the point of origin to the boundary or ports, and by the revenues earned by Canadian vessels carrying exports across the ocean.

Actually, the addition of the estimated freight costs to the recorded values indicates that Canada's imports are undervalued to a greater extent than her exports.

2. The estimates of freight received and paid may be applied to individual commodities with very illuminating results. For example, the recorded value of some 17 million tons of coal imported from the U.S.A. in 1930 was approximately 47 million dollars. This figure represents the price at the mine or point of original shipment. If we add to this the cost of freight to the Canadian boundary, an expense ultimately paid by the Canadian importer, the value of coal imported is increased to 74 million dollars.

3. Finally, the estimates of 'invisible' freight imports and exports can be used to convert Canadian trade figures to a c.i.f. basis, for more accurate comparison with the trade returns of other countries. If this were done, the total trade of Canada would be represented as somewhat greater than the present figures show. Without this adjustment there frequently appear discrepancies between the trade statistics of different countries relating to the same inter-area trade, i.e., between Canada and other countries.

DESCRIPTION OF METHOD OF CALCULATION OF FREIGHT PAYMENTS AND RECEIPTS

During the last few years the Bureau has made a careful study of the problems inherent in the computation of freight payments and receipts and some improvements or alterations in the methods previously used have been made; revised estimates made back to 1926 are presented in the present bulletin.

Quite briefly, the freight payments made by Canada to foreigners arise from the import trade, and can be placed under three headings.

I. Freight Payments made by Canada.

(a) Freight earned by U.S. railroads carrying export goods to the Canadian boundary. This item is easily the most important of the 'invisible' freight calculations, by reason of the large percentage of Canada's imports which originate in the U.S.

(b) Freight earned by British and foreign vessels carrying Canadian imports from overseas.

(c) Ocean freight paid on imports coming into Canada via the U.S.A. Railroad freight expenses in the U.S. on these imports are, of course, already included under (a).

These three constitute the "payments" or debit items.

II. Freight Receipts by Canada are as follows:

(a) Freight earned by Canadian railroads, etc., carrying exports to the ports or boundary.

(b) Freight earned by Canadian vessels carrying exports overseas.

(c) Freight earned by Canadian railroads on the transit traffic, i.e., that which is received from and delivered to foreign connections. For example, the Canadian National Railway moves several million tons of American commodities in bond from the St.Clair River points through Ontario to Buffalo or Montreal. The earnings on this traffic constitute an invisible freight receipt (export) and while not analogous with the other categories listed above, it is convenient to include it under this section of the balance of payments. The methods of estimating the magnitude of freight payments follows:-

I. (a) Freight paid to U.S. railroads on imports from U.S.A.

The Annual Summary of Monthly Traffic Reports, issued by the Bureau of Statistics, lists the 'tonnage of revenue freight received from foreign connections destined to Canadian points' (16,757,912 tons in 1930). This total, however, refers only to revenue freight, and will not include the considerable quantity of coal and some less important commodities which the Canadian railroads import for their own use from the U.S.A.

In addition, it appears that some of the coal imported into Canada is purchased from American exporters at or near the border, at a price which necessarily includes freight to that point. The recorded Canadian import value will therefore include the freight expense. For these reasons, a separate calculation is made in respect of the freight paid on coal imports, not already included in the import price.

The assumption is now made that the tonnage of non-coal revenue freight received from foreign connections represents the total imports via land from the U.S.A.

This is not strictly true. Some overseas imports at the Atlantic and St.Lawrence ports, etc., are included herein, but the proportion is sufficiently small to be neglected (say 5%). The next step is to compute a weighted average freight rate to be applied to the tonnage of non-coal imports from U.S.A., in order to arrive at the freight costs. This method of estimate is more likely to yield satisfactory results than the more normal procedure of taking an estimated percentage of the value of imports as the probable cost of freight, because of the fact that fluctuations in railway rates are less frequent than alterations of prices.

To compute an average freight rate, therefore, a calculation has been made from figures relating to freight earned by all U.S. railroads on different commodities, published by the Inter-State Commerce Commission, relating to 1929. Thus, by dividing the "tonnage of revenue freight originated" into the freight revenue--for each of the more important commodities entering into the Canadian import trade--we arrive at a freight earned per ton for the "average haul". The rates so obtained apply to 80% of the non-coal freight actually imported into Canada from U.S. by rail in 1929. The weighted average was $5.48 per ton, and may be applied to the total tonnage imported if we assume that the "average haul" for each commodity on the U.S. railroads corresponds to the average haul for that commodity to the Canadian boundary--which cannot be far wrong.

This average rate must be adjusted downwards to make allowance for several corrections.

(1) Import tonnage from U.S.A. as recorded above is too high by reason of the inclusion of some ocean imports already referred to.

(2) Some Canadian imports from U.S. are bought from wholesalers at Lake ports or boundary points at a price which includes freight.

In order to make allowance for these facts, the average rate per ton is arbitrarily reduced to $5 and may be adjusted in future years in line with general alterations in freight rates. Freight paid on 7,980,087 tons of non-coal imports in 1930 is therefore estimated at $39,900,000.

Freight paid on coal imported from U.S.A.

It is impossible to apply the same method to the calculation of coal freight because:-

(1) The railways import coal for their own use, the figures for which are not recorded in the same return.

(2) Some imports of coal may be recorded at a price which includes freight, as when purchased through a wholesaler at, say, Cleveland or Buffalo. It would, therefore, be inaccurate to consider all U.S. coal imported as coming direct from the mines, and valued

on that basis in the Canadian import returns. An alternative method of estimating the freight (not already included in the import price) so paid is to consider it as represented by the difference between: (a) The U.S. value of coal exported to Canada, which is the value at the boundary or ports and therefore includes freight, and (b) the Canadian recorded value of coal imported from the U.S., which is the value at the mine, or at the point of original shipment in the United States, which may of course, be a boundary point or Lake port.

This method of estimate takes advantage of the differences in the method of valuation adopted by the two countries, and avoids the statistical difficulty mentioned above. Using the methods described, the estimate for freight paid to U.S. railways is derived as follows:-

COAL
(in thousands of $)

	1926	1927	1928	1929	1930
Anthracite					
Exported from U.S.A. (U.S. values)	40,273	32,130	32,277	32,569	24,075
Imported from U.S.A. (Canadian values)	29,989	24,130	23,299	22,899	21,164
Difference-being freight paid	10,284	8,000	8,978	9,670	2,911
Bituminous					
Exported from U.S.A. (U.S. values)	52,202	55,620	50,128	54,217	49,982
Imported from U.S.A. (Canadian values)	25,443	29,004	24,885	25,882	25,363
Difference-being freight paid	26,759	26,616	25,243	28,335	24,619
Total freight paid Anthracite & Bituminous	37,043	34,616	34,221	38,005	27,530

NON-COAL FREIGHT
(in thousands of tons)

	1926	1927	1928	1929	1930
Total-'Revenue freight received from foreign connections destined for Canadian points'.	18,466	17,229	18,365	20,465	16,758
Total Coal	10,885	9,382	8,955	9,916	8,778
Total of non-coal	7,581	7,847	9,410	10,549	7,980
	(Thousands of $)				
Freight paid on non-coal imports from U.S. at $5 per ton.	37,907	39,234	47,050	52,747	39,900
Estimate Freight paid to U.S. railroads, coal and non-coal imports	74,950	73,850	81,271	90,752	67,430

I (b) Ocean freight paid to British and foreign vessels carrying imports to Canada.

Imports into Canada from overseas are similarly valued in the Canadian customs returns as at the point of origin abroad. If carried in British or foreign vessels, the freight so earned (net, after deduction for expenses in Canadian ports) constitutes an invisible import.

thod of Estimate.

The Annual Shipping Report (compiled by the Department of Customs) lists the nnage of freight, entered and cleared, in British, foreign and Canadian vessels for the scal year. Hitherto, in making the estimate of freight costs, the method was to take e total of British and foreign carried tonnage (imports) which was then multiplied by average ocean freight rate (based upon $7.50 per ton for 1928 and adjusted for other ars in accordance with the Economist Index Number of ocean freight rates). A deduction 33 1/3% from these estimated gross earnings was made in order to allow for that portion the earnings of British and foreign vessels expended in Canadian ports. This percentage s arrived at as a result of a detailed study, made for the year 1925. Statistics of the incipal ports were examined, the actual harbour and pilotage dues paid in each port ing estimated for all non-Canadian shipping. Loading and unloading expense was taken twenty-five cents a ton cargo; brokerage and commissions at five cents a ton net gister; supplies purchased at ten cents a ton net register; and expenditure by crews one dollar a head. The final result proved to be 35% of the estimated freight earnings r Canadian cargo of British and foreign ships in 1925.

One-third of the gross earnings of British and foreign vessels carrying nadian imports and of Canadian ships carrying exports is therefore deducted from gross rnings in our calculation of freight payments and receipts.

Certain revisions have had to be made in the estimates of the gross earnings foreign vessels, although the basic method has been retained. (1) The explanation of ese changes is as follows:-

(1) The figures given in the Shipping Reports relating to the tonnage carried in Canadian and British vessels (the primary data) are ambiguous for our purpose. The nationality of a vessel is apparently determined by its port of registry. Certain Canadian-owned vessels are registered in Great Britain or elsewhere, and are, therefore, recorded as British ships. The most important example of this is the C.P.R. Line, most of whose vessels are in this sense 'British'.

The tonnage of freight carried by these and any other Canadian-owned vessels must be(1) deducted from the totals described as "entered in British and foreign vessels", thereby reducing the debit item and(2) added to the tonnage of exports carried in Canadian vessels, constituting an additional "credit" item in the balance of payments. Extensive confidential enquiries were made in 1930 amongst Canadian shipping companies, the C.P.R., Imperial Oil, McColl Frontenac, etc., in order to discover the port of registration of their vessels in order to determine the 'nationality' and to find out the volume of freight carried annually in these same vessels, both of imports and of exports.

As a result of this investigation the figures of inward freight tonnage carried in British and foreign vessels must be reduced by 10% to offset the inclusion of Canadian-owned vessels in the statistics. Similarly the total tonnage of exports reported as carried by Canadian vessels will be increased by 40% to allow for other Canadian vessels recorded as British.

These alterations reduce the net debit on account of shipping freight in the balance of payments by five to seven millions of dollars.

(2) A further refinement of method which has been adopted is to discriminate between inward and outward freight rates. By taking the figures of operations submitted by the various companies doing Canadian business--figures showing the tonnage carried and the freight revenues received, two weighted average ocean freight rates were struck for 1928, viz., import rate $9.65 per ton; export rate $7.07 per ton.

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1) A normal method of estimate is to determine the percentage which the freight expense bears to the value of goods carried by vessels of a number of sampled firms in any one year. This method is unsuited to Canadian purposes, since "values" imported in British, Canadian and foreign vessels are not recorded. In any case the use of this method is very dubious in view of the difficulty of making adjustments in the basic percentage to provide for: (1) changes in the value of imported and exported goods--the basic % alters inversely. (2) alterations in ocean freight rates--the basic % varies directly. The method described above is therefore adopted, with slight modifications.

The ocean freight rates for preceding years (and for 1930), adjusted in accordance with the Economist index number of freight rates are, therefore, estimated as follows:-

Year	Index No.	Import	Export
1926	109.7	$ 10.71	$ 7.85
1927	109.7	10.70	7.85
1928	98.8	9.65	7.07
1929	96.8	9.45	6.93
1930	94.8	9.25	6.78

The difference between the import and export rates is explained by the different nature of the traffic. Exports are bulky and cheaper to carry, imports are more compact and expensive. The distinction is especially important in the balance of payments by reason of the fact that the proportion of tonnage carried in Canadian vessels appears to be greater in respect of exports, where the freight rates are lower. The import traffic is more largely carried by British and foreign vessels at, of course, what are more expensive rates.

(3) The Shipping Reports compile statistics of tonnage for fiscal years ending in March, while the Balance of Payments is concerned with calendar years. The error involved in the application of the (for example) 1929 freight rates to the tonnage ascribed to the year ending March, 1930, is sufficiently small as to be negligible: this factor is therefore ignored.

Applying the computed freight rates to the tonnage imported in British and foreign vessels, and making the usual deductions for port expenses, and for freight imported in Canadian vessels (recorded as British), freight payments by Canada are estimated as follows:-

(Thousands of $)

1926	1927	1928	1929	1930
28,739	33,116	32,167	38,213	32,000[x]

II (b) Freight Receipts earned by Canadian Vessels are similarly estimated--the basic figure of export tonnage carried in Canadian vessels being increased by 40% to take account of those Canadian vessels which would be recorded as "British". The estimates are as follows:-

(Thousands of $)

1926	1927	1928	1929	1930
15,580	12,684	12,096	9,311	7,000 (est.)

I (c) Ocean Freight payments made by Canada on imports via U.S.A.

Canadian trade returns show that between ten and fifteen million dollars worth of imports from overseas enter Canada via the United States. The freight paid on this relatively small volume of imports constitutes an invisible import. The railway freight paid for transit across U.S.A. is included in the calculation under Section IA. An estimate must now be made of the ocean freight paid from point of origin to the U.S. port, the assumption being that these imports are carried in non-Canadian vessels.

The method used was to estimate the tonnage of this trade, this figure being multiplied by the inward ocean freight rate for the particular year. To estimate the tonnage from the recorded statistics of the value of goods imported into Canada via U.S.A., it has been necessary to make some rough calculation of the average value per ton of all ocean imports into Canada. The result varies from $55 to $62 for 1926-29. The application of these values to imports via U.S.A. gives the tonnage required, and this figure is multiplied by the freight rate to arrive at the total freight cost on these imports.

x This is a rough estimate. Shipping figures for 1930 not yet published: the 1929 estimate is therefore roughly adjusted on the basis that imports from overseas fell from $405 millions to $355 millions, and the freight rate from $9.45 per ton to $9.25. Overseas exports fell from $663 millions to $493 millions, and the rate from $6.93 per ton to $6.78.

Several objections may be made to this method: firstly, the statistics of imports via U.S.A. are on a fiscal year basis; and secondly, the assumption that imports via U.S.A. are of a similar nature (in respect to bulk and value and therefore, by inference, to freight rates) to those entering Canada direct, may be invalid. In point of fact the goods coming via U.S.A. are largely raw materials from South and Central America and the Far East, and are probably worth less per ton than the manufactured goods coming direct to Canada from Europe, etc.

The total amounts involved are so relatively small, however, that no adjustments have been made and it is believed that to estimate this freight payment as being equal to 15% of the value of imports via the U.S.A. will be sufficiently accurate for future calculations.

Freight paid on Imports via U.S.A.-

(Thousands of $)

Fiscal year ending March	Imports from Overseas via U.S.A.	Ocean Freight Paid
1927	$ 12,761	$ 2,174
1928	12,118	1,995
1929	11,043	1,890
1930	9,850	1,478
1931	8,000 (est.)	1,200

II. Freight Receipts - Rail

Canadian exports are valued in the Trade Returns as at the point of original shipment in Canada. It is necessary, therefore, to calculate the freight earned by Canadian railways and vessels in transporting commodities to the boundary or ports of exit. There are, however, one or two exceptions to the general rule that exports are valued as at the point of origin. Some Canadian export commodities are sold f.o.b. destination and the customs valuation therefore includes freight to the point of destination. This is the practice, for example, in the flour and grain products trade, where the export value includes freight to the ports and sometimes to the foreign destination. In this latter case some allowance should be made for freight credited to Canada in the export valuations but actually earned by British and foreign vessels who carry part of the flour exports.

Caution must also be exercised in applying the term "point of original shipment". For example, grain shipped from Port Arthur and Fort William via Buffalo has Port Arthur or Fort William as the point of original shipment; but in the case of grain shipped from these ports to Montreal and afterwards exported, Montreal becomes the point of original shipment for customs purposes, the freight from head-of-lakes to Montreal being included in the values shown in the invoices from which trade returns are compiled. In the first case, grain carried from Port Arthur in Canadian ships to Buffalo earns inland freight which is not included in customs figures, and in the second case the inland freight to Montreal is already included in the customs valuation of exports. Freight receipts for grains and flour and other milled products must, therefore, be treated separately from the main calculation.

With the above principles for guidance the following methods were adopted to estimate receipts not already included in customs valuations.

(a) Freight earned by Canadian railroads, carrying Canadian exports (exclusive of grain, flour and milled products)

The Summary of Monthly Traffic Reports compiled by the Bureau shows (a) the volume of railway freight delivered to foreign connections (ports of exit or boundary points) and (b) railway freight received from foreign connections destined for foreign points (this is the in-transit traffic, which also brings revenue into Canada, the estimate of which must again be a matter of separate calculation for the reasons explained below).

The actual Canadian export traffic handled by rail is shown by the difference between (a) and (b), and amounted to 18,155,091 tons in 1929 and 14,969,-443 tons in 1930. (See table on page 15).

The figures for wheat and grains, flour and other milled products must be abstracted from these figures, being the subject of a special calculation below.

For the remaining tonnage of Canadian exports it is assumed that the freight paid thereon from the point of original shipment to the port or boundary is not included in the respective export valuation. Extensive inquiries amongst exporters of wood, wood-pulp, newsprint, logs, timber, paper, etc. (which general classification provided a large proportion of the total tonnage of direct export of Canadian goods) demonstrated conclusively that the invariable custom is to value the exports for customs purposes as at the point of original shipment which, in most cases, was the same thing as the f.o.b. mill value. The initial assumption then, seems fairly valid and is in accordance with the instructions issued by the Customs authorities.

The next step is to apply a flat rate per ton of freight to the figures of tonnage exported for each of the important commodity classes (excluding grains, flour, etc.). The Transportation Branch of the Bureau has selected for each of these commodities an export rate, being the through freight rate on the typical export haul for that commodity. The results obtained by this method are likely to be as accurate as is possible. Flat rates per ton do not vary greatly for slightly longer or shorter hauls, and export rates are generally lower than interprovincial rates, a factor which tends to invalidate the use of the ton-mile rates formerly adopted in this computation. Flat rates per ton are therefore selected, and the calculation has been still further shortened and simplified by combining these export rates into a weighted average export freight rate which has been applied to the total tonnage of goods exported (excluding, of course, grains and flour). This average worked out to approximately $4 per ton for 1928-29; in view of the slight changes in railway rates during the period, this figure is adopted for all five years.

FREIGHT RECEIPTS - RAIL

	1926	1927	1928	1929	1930
Total delivered to Foreign connections - tons	30,399,334	35,410,684	40,168,070	35,160,291	28,073,015
Received from foreign connections destined to foreign points (in transit traffic) - tons	15,201,374	16,131,481	16,826,459	17,005,200	13,103,572
Total Canadian Export Trade (A) - tons	15,197,960	19,279,203	23,341,611	18,155,091	14,969,443
Production					
(1) Canadian grains - tons	2,771,254	7,107,479	10,886,099	6,129,933	5,428,934
(2) Canadian flour and other milled products - tons	1,266,505	1,167,830	1,425,576	1,241,758	902,566
Total exports, grain, flour & other milled products (B) - tons	4,037,759	8,275,309	12,311,675	7,371,691	6,331,500
Difference (A) minus (B) = Amount of Canadian exports not specially accounted for - tons	11,160,201	11,003,894	11,029,936	10,783,400	8,637,943
Freight Receipts At average flat rate of $4 per ton on export traffic: receipts =	$44,640,804	$44,015,576	$44,119,744	$43,133,600	$34,551,772

Freight receipts on exports of grain, flour and other milled products

Canadian shipping and railway companies earn large sums annually for the carriage of export grain but by far the greater proportion of these earnings are included in the recorded value of exports as already explained. It is only necessary, therefore, to take account of the invisible portion so far as the balance of international payments statement is concerned. The following is a list of customs ports of exit showing the geographical location of the point of original shipment for grains for purposes of export valuation in the trade returns:-

Customs Port of Exit	Point of Original Shipment
Montreal	Montreal
Quebec	Quebec
St.John, N.B.	St.John, N.B.

Customs Port of Exit - Con.	Point of Original Shipment - Con.
Halifax, N.S.	Halifax, N.S.
Vancouver, B.C.	Vancouver, B.C.
Prince Rupert, B.C.	Prince Rupert, B.C.
Coaticook, Que.)	
Sherbrooke, Que.)	Mostly Fort William and Port Arthur
St.John, Que.)	
Welland)	
Niagara Falls)	
Bridgeburg)	Georgian Bay ports
Prescott)	
Cornwall)	

Working on the basis of the foregoing table, and taking into account the various routes and methods by which the grain traffic is moved, the 'invisible' items in inland freight payments and receipts for grain are calculated as explained in the following brief notes:-

Freight earned by Canadian carriers

1. United States grain in bond from Port Colborne to Montreal. Quantities obtained from Grain Trade Report. Rates from Transportation Branch, D.B.S.

2. United States grain in bond from Georgian Bay ports by rail to Montreal, American Seaboard, Canadian Seaboard, etc. Quantities from Grain Trade Report. Rates from Transportation Branch, D.B.S.

3. Canadian grain from Georgian Bay ports by rail to border points. Quantities from Grain Trade Report. Rates from Transportation Branch, D.B.S.

4. Canadian grain carried in Canadian ships from Fort William and Port Arthur to Buffalo. Quantities and rates from Transportation Branch, D.B.S.

5. Canadian grain from Fort William and Port Arthur by rail to Coaticook, etc. Quantities from Grain Trade Report. Rates from Transportation Branch, D.B.S.

6. United States grain in transit. This in-transit grain is included in the general in-transit estimate especially compiled and is neglected here to avoid duplication.

Payments to United States

7. Grain shipped from Fort William and Port Arthur to Canadian ports in U.S. vessels. Grain Trade Report.

8. Transhipments of Canadian grain from Buffalo to Montreal in U.S. vessels. Transportation Branch.

That is to say, the quantities shipped by the various routes for the crop years are abstracted from the Report on the Grain Trade of Canada, and placed on a calendar year basis, and in some cases converted from bushels into units of 100 lbs. to which the rates are applicable. Average Lake freight rates on wheat are obtained from the Grain Trade Reports and applied to the related shipments; rail freight rates are obtained from the Transportation Branch. For the sake of convenience the net "credit" for grain freight is carried forward to the Summary. The estimates for grain work out as follows:

GRAIN FREIGHT RECEIPTS

	1926	1927	1928	1929	1930
	$	$	$	$	$
1. U.S. Grain from Pt.Colborne to Montreal	943,594	2,015,948	1,908,647	554,118	427,813
2. U.S. Grain Georgian Bay Ports by rail	1,701,796	3,601,445	2,728,080	2,148,988	1,244,612
3. Georgian Bay Ports by rail	876,826	543,837	648,384	462,253	436,760
4. Shipments from Port Arthur to Buffalo in Canadian vessels.	980,966	896,122	1,166,948	248,091	274,059
5. Fort William and Port Arthur via Coaticook by rail	1,485,000	661,610	1,084,050	422,965	195,337
	5,988,182	7,718,962	7,536,109	3,836,415	2,578,581

GRAIN FREIGHT PAYMENTS

	1926	1927	1928	1929	1930
	$	$	$	$	$
7. Grain shipped from Port Arthur to Canadian Ports in U.S. vessels	90,000	120,000	240,000	100,000	Nil
8. Transhipments Buffalo to Montreal	1,005,002	2,772,749	3,645,704	1,040,667	1,115,427
	1,095,002	2,892,749	3,885,704	1,140,667	1,115,427
NET GRAIN FREIGHT RECEIPTS BY CANADA	4,893,180	4,826,213	3,650,405	2,695,748	1,463,154

II. (b) Freight earned by Canadian vessels carrying exports to overseas has already been discussed and estimated under Section I (b) above.

II. (c) Freight Receipts from In-Transit Traffic.

The Summary of Monthly Traffic Reports compiled by the Bureau of Statistics shows, inter alia, the volume of 'freight received from foreign connections destined for foreign points'. This is the in transit traffic on which Canada can be said to earn 'invisible' receipts which must be included in the balance of international transactions. This movement of goods in transit across Canada is particularly heavy on the lines running across South Western Ontario between Detroit and Buffalo, and on the Canadian section of the line running between Chicago, Montreal and the New England States. The assumption has hitherto been made that the Ontario in transit traffic is carried on purely Canadian lines, earning revenues from U.S. shippers, all of which will accrue to Canada in the balance of payments.

Actually, of course, the largest part of the Ontario traffic (75% approximately) consists of American traffic passing over American owned or leased lines; over the Michigan Central, the Wabash Railroad and the Pere Marquette. This does not mean, however, that Canada should not be credited with some freight receipts from the traffic. The operating expenses of the line are incurred and disbursed in Canada; the receipts come largely from American shippers. This, then, is clearly an "international" transaction.

It is necessary, therefore, to make separate calculations in order to arrive at:

(a) Freight receipts by Canada arising from in-transit traffic on American owned or leased lines in Ontario.

(b) Freight receipts by Canada arising from in-transit traffic on purely Canadian lines in all other provinces, and on the Canadian National line in S. Ontario.

Receipts from in-transit traffic are calculated separately for each province in accordance with the form of the Traffic Report Statistics. The details given below are for 1929 and indicate the nature of the primary data on which the estimates are made.

1. In-Transit Traffic,	New Brunswick	475,194	tons
	Quebec	2,379,078	"
	British Columbia	301,600	"
	Other provinces (negligible)	21,081	"
	Total	3,176,953	"
2. In-Transit Traffic,	Ontario	13,828,247	"
		17,005,200	"

The tonnage carried under Section 1 (all provinces except Ontario) was carried very largely on Canadian-owned lines, and is described briefly on the next page.

New Brunswick: Goods received from points on the Maine - New Brunswick frontier and carried back into Maine further south, or possibly exported via St. John. It will also include traffic received from the New Brunswick ports ("foreign points") destined to points in Maine or elsewhere at a through rate. In any case the haul is relatively short, and the freight rate to be adopted is arbitrarily placed at $1.00 per ton.

Quebec: A movement of traffic from the Chicago region across Quebec in bond, and back into U.S.A. to Portland, Maine, whence exported. The traffic is largely wood pulp and paper and anthracite coal. There is a reverse movement--imports via Maine and Quebec to the American Middle West. Again, for a relatively short haul across the province the freight rate is arbitrarily placed at $1.00 per ton.

British Columbia: Goods coming from the Far East via Vancouver transhipped in bond to Chicago and Eastern American points. For example, silk from Japan and China, etc., destined for Central and Eastern American points is shipped in special fast freight trains and pays a high rate, equivalent to passenger tariffs, of approximately $9.00 per cwt. The actual details of this commodity traffic (not shown separately in Canadian import statistics) can be obtained from the Foreign Commerce and Navigation reports of the U.S.A. by referring to imports at the ports of entry under the three regions, St.Lawrence, Buffalo and Chicago. For 1928 the imports into U.S.A. of this in-transit traffic were:

	St.Lawrence Ports	Buffalo Ports	Chicago Ports
Raw Silk .... Lbs.	10,296,466	6,913,234	192
Silk Waste .. Lbs.	467,573	4,988	-
Total ... Lbs.	10,764,039	6,918,222	192

Total revenues to Canadian railways at $9.00 per cwt. would then be in the neighbourhood of $1,600,000. For the whole of this long-distance in-transit traffic an arbitrary estimate of $10,00 per ton has seemed reasonable.

Ontario: The Traffic Reports show in-transit traffic of 13,828,247 tons for 1929. Of this it appears that the C.N.R. carries approximately 2,500,000 tons. The rest of the traffic was carried by American owned or leased lines, principally by (a) Wabash Railway, (b) Pere Marquette, (c) Canada Southern or Michigan Central. These American lines have running rights and leases on the Canadian National, but since the revenues received from American shippers are almost entirely spent in Canada in the form of operating expenses, we are justified in including these earnings in the general category of Canadian freight receipts from in-transit traffic.

As a basis for our estimate we use therefore, the statistics published in the Traffic Report relating to the total operating expenses of U.S.A. lines in Canada, from which we have abstracted those dealing with the three lines referred to (which together constitutes 90% of the total of such expenses). Details are shown overleaf.

A deduction must be made from this total to allow for freight receipts derived from traffic originating in Canada, which is not in-transit traffic, and, therefore, does not merit inclusion as a redeipt chargeable to foreigners.

Analysis of the reports dealing with freight carried by American-leased railways in Canada shows that over the years 1926-28, approximately 70% of the traffic originated in the United States. That proportion, then, of the total operating expenses is appropriated as a freight receipt by Canada.

Transit Traffic on the C.N.R.

Statistics in the possession of the Bureau show that the C.N.R. carries itself approximately 2,500,000 tons of in-transit traffic in Ontario. (See table overleaf). This consists of commodities moving in bond from Chicago and the West generally, to Detroit and Sarnia, thence through Ontario to Buffalo, or through to Montreal (1/6 of the traffic) for shipment abroad. These commodities include mainly grains, flour, fruits and vegetables, dressed meats and packing house products, anthracite, ores and timber (see Traffic Report - Ontario Section). The average length of haul is about 300 miles. The average earnings of all Canadian railways or revenue freight in 1929 was 1.09 cents per ton mile, or say approximately $3.00 per ton for this particular haul. This flat rate is therefore applied to the

tonnage carried. Appended below are the details relating to the in-transit traffic and the estimates of receipts for inclusion in the balance of payments, computed by the methods referred to,

IN-TRANSIT TRAFFIC

(Canadian and U.S.A. Leased Lines in Canada)

	1926	1927	1928	1929	1930
			Tons		
Nova Scotia	471	1,599	1,949	2,204	2,129
New Brunswick	275,738	307,496	383,681	475,194	488,445
Quebec	1,700,762	2,036,957	2,269,459	2,379,078	1,374,737
Ontario	12,894,410	13,391,021	13,876,051	13,828,247	11,038,602
Manitoba	960	1,113	840	401	234
Saskatchewan	14,713	16,566	15,319	18,475	10,289
British Columbia	314,320	291,027	279,160	301,601	189,136
Total tonnage	15,201,374	16,131,481	16,826,459	17,005,200	13,103,572
Portion carried by C.N.R. in Ontario	903,633	2,427,373	2,224,211	2,500,000	2,500,000

TOTAL OPERATING EXPENSES U.S.A. LINES IN CANADA

Canada Southern	$ 14,340,865	$13,853,171	$14,229,387	$15,248,455	$12,615,200
Pere Marquette	3,060,500	3,118,938	3,121,628	3,270,152	2,957,892
Wabash (in Canada)	5,203,016	5,459,299	5,728,102	5,812,423	5,093,484
(Other U.S. railways in Canada negligible)					
Total	22,604,381	22,431,408	23,079,117	24,331,030	20,666,576

ESTIMATES OF FREIGHT RECEIPTS ON IN-TRANSIT TRAFFIC

New Brunswick (at $1 per ton)	$ 300,000	$ 400,000	$ 400,000	$ 500,000	$ 500,000
Quebec (at approximately $1 per ton)	1,700,000	2,000,000	2,300,000	2,400,000	1,400,000
British Columbia (at approximately $10 per ton.)	3,100,000	3,000,000	2,800,000	3,000,000	1,900,000
Ontario (carried by C.N.R. at approximately $3 per ton)	2,700,000	7,200,000	6,700,000	7,500,000	7,500,000
U.S.A. - leased lines in Canada (at 70% of operating expenses)	15,800,000	15,700,000	16,200,000	17,000,000	14,500,000
Total estimated receipts from in-transit traffic	23,600,000	28,700,000	28,400,000	30,400,000	25,800,000

Addendum - CANADIAN RAILROADS OPERATED IN THE UNITED STATES

The chief lines owned and operated by Canadian railway companies in the United States are:

1. New England.
2. Central Vermont.
3. Grand Trunk Western Lines.
4. Duluth, Winnipeg and Pacific.

Easily the most profitable of these lines is the G.T.W., which covers the most densely populated area of the State of Michigan (Chicago and Grand Haven to Sarnia). Commodities passing from Chicago district into Canada, and lake traffic unloaded at Grand Haven, traverse this route. The receipts on these lines, earned in U.S., may be taken as expended in the United States, so that it is not necessary to estimate the value of this item for inclusion in the invisible freight receipts.

It appears that the net receipts transferred to Canada are very small and are amply covered in our separate statement of interest receipts and payments. This case, of course, is not quite analagous with that of Canadian lines leased by American railways. The Canadian National own the U.S. lines outright and separate statistics are available. American railways in Canada are leased lines, the operating expenses incurred in Canada are paid largely by American shippers, and it is neither correct nor practicable to include these receipts as "interest payments".

SUMMARY TABLE OF INVISIBLE FREIGHT RECEIPTS AND PAYMENTS
1926 - 1930
(Thousands of Dollars)

RECEIPTS

	1926	1927	1928	1929	1930
Inland freight receipts (on non-grain exports)	44,641	44,016	44,120	43,134	34,552
Inland freight receipts from grain exports (net)	4,893	4,826	3,650	2,696	1,463
Inland freight receipts from in-transit traffic	23,600	28,300	28,400	30,400	25,800
Total rail receipts	73,134	77,142	76,170	76,230	61,815
Earned by Canadian Ships on exports	15,580	12,684	12,096	9,311	7,000
Total	88,714	89,826	88,266	85,541	68,815

PAYMENTS

On imports - to U.S. railways	74,950	73,850	81,271	90,752	67,430
On imports - to British and foreign ships	28,739	33,116	32,167	38,213	32,000
On imports - on account of ocean imports via U.S.A.	2,599	2,174	1,995	1,890	1,478
Total	106,283	109,140	115,433	130,855	100,908

TOURIST EXPENDITURES

The estimates of the sums transferred internationally on account of the tourist traffic are published annually by the Bureau in a bulletin entitled "The Tourist Trade of Canada". The most recent bulletin, released in June 1931, contains the result of a more elaborate survey carried through in 1930 with the collaboration of the U.S. Department of Commerce, as to the expenditures of American tourists entering Canada by automobile. The effect of this inductive enquiry has been to reduce slightly the estimates of the expenditures of tourists from other countries in Canada, and to increase slightly the estimates of expenditures of Canadian tourists abroad.

As was to be expected, in view of the economic depression with its dual consequence of declining incomes and reduced prices, the gross total of the tourist trade in 1930 showed a decline on the 1929 estimates. Thus, the estimated expenditures of foreign tourists in Canada declined from $309,379,000 in 1929 to $279,238,000 in 1930. It is quite possible that in 1930 some American tourists who, in more prosperous times might have gone overseas, were diverted to Canada, attracted by the relative cheapness of an automobile holiday in this country. This factor may explain the comparatively slight decline of less than 10% in Canada's income from the tourist trade. Of course, it must be remembered that until 1930 the volume of foreign visitors (particularly from the U.S.) had been steadily increasing as a knowledge of the advantages of a Canadian holiday become more widespread.

The three groups of Canadian tourist abroad--those leaving via ocean ports, those crossing into the U.S. by automobile and those entering the U.S. by rail or steamer--each showed a reduced expenditure in 1930. The total import of foreign tourist services, in other words, declined from $121,645,000 in 1929 to $113,292,000 in 1930.

Although the estimates made in the bulletin referred to have been incorporated without alteration in the Balance of Payments, it must be pointed out that certain assumptions thereby involved require explanation.

(1) The estimates of expenditures of overseas visitors in Canada do not include the amounts paid on ocean transportation to Canada. Where such visitors travel on foreign vessels no international transaction takes place, but in the case of British and foreign visitors travelling by Canadian vessels to and from Canada, an invisible receipt of funds is involved, and an estimate of the magnitude of this would seem to be warranted. On the other hand, it is possible that the estimated average amount spent in Canada itself by overseas tourists is already too high since it is arrived at by comparison with the amounts spent by Canadians abroad (for which the questionnaire method has already yielded satisfactory results)--which sums include steamship expenses. On balance, it is believed that this "credit" estimate is slightly higher than the facts warrant.

(2) The estimate of the expenditures abroad of Canadian overseas tourists takes into account the purchase of steamship tickets. In so far as Canadian Steamship Companies (notably the C.P.R.) carry a good deal of this passenger traffic no international transaction takes place and the "debit" estimate is too high by that amount.

It has seemed reasonable, therefore, to assume that these two defects in the estimates involve exactly counterbalancing errors, and since they concern only the ocean tourist traffic, we do not expect them to make any appreciable difference in the net tourist estimates, in which the Canada-U.S.A. boundary movement is predominent. For this latter traffic it is believed that the estimates are reasonably accurate, and we therefore carry the estimates already published into the balance of payments without adjustment. Those interested in the methods used in the computation of tourist expenditures are referred to the bulletin mentioned previously.

RECEIPTS AND PAYMENTS OF INTEREST AND DIVIDENDS

For a country like Canada which is, on balance, a large debtor nation on international account, the interest and dividend payments remitted abroad annually are correspondingly important, and occupy a prominent position in her international transactions. After tourist expenditures the gross movement of funds on account of interest and dividends is the greatest of the invisible transfers. A good deal of attention, therefore, has been given to the problems involved in making the calculation of the amount of funds remitted and received annually in the form of interest on foreign investments and it is believed that the revised estimates shown in the Summary Balance of Payments are more accurate than those previously published.

More information has recently become available, the effect of which is to require a downward revision in previous estimates of the international interest receipts and payments. The nature of such information is shown in the discussion of the methods of estimate used. Briefly speaking, it has been proved that some of the earlier estimates of the total foreign investments in Canada were invalid and, more important from the point of view of the balance of payments, the computed rate of interest paid on foreign investments in Canada has hitherto been placed at too high a figure.

The table below incorporates the revised estimates of foreign (British, U.S.A. and other countries) investments in Canada. The totals shown as at the beginning of each of the years 1926-29 do not differ greatly from those shown in previous estimates, but some of the constituent estimates have been altered for the reasons indicated in the explanations of method given in succeeding pages.

TABLE I. - Estimated Foreign Investments in Canada, 1926-1930.
(000's omitted)

	1 Jan.1926	1 Jan.1927	1 Jan.1928	1 Jan.1929	1 Jan.1930
Government Securities (Dominion, Provincial, Municipal)	1,157,670	1,190,772	1,199,492	1,179,027	1,184,670
Railways	1,424,726	1,439,642	1,504,825	1,537,924	1,674,865
Other Public Utilities(Heat, Power, Traction, Light & Telephone etc.)	473,625	559,839	593,944	573,464	628,230
Pulp and Paper & Lumber Industries	368,555	395,956	475,343	510,531	520,248
Mining Industry	212,006	214,606	226,120	273,912	281,600
Metal Industries	548,525	542,580	543,203	561,966	546,915
All Other Industries	451,932	452,833	469,348	490,469	492,376
Trading Establishments	191,461	209,510	222,563	234,753	250,000
Finance and Insurance	155,906	161,121	189,480	192,304	209,022
Land and Mortgage	320,000	325,000	334,346	338,029	338,033
Total Foreign Investment	5,304,406	5,491,859	5,758,664	5,892,379	6,125,959

It should be pointed out that the general principal adopted in compiling the above statement is that the total foreign investment in each class of security or enterprise should be considered in terms of the amount of capital 'employed' and not as the par value of the securities represented thereby. In other words, in estimating the amount of foreign capital invested in the various industrial groups, the method has been to take the total amount of capital employed in that group as shown by the annual statistics of the Census of Manufactures and to compute the foreign share of such capital in the light of the geographical distribution of ownership of capital stock (bonds, preference and common stock) in the industry in so far as this factor is known.

Rate of interest paid on foreign investments.

For the reason just given, the estimates of the rates of interest earned by foreigners on their investments in Canada must be calculated as a return on the capital employed, and not upon the nominal value of such investments. In most cases the rate of interest paid on the capital employed proves to be somewhat lower than that paid on the subscribed or nominal capital, which will occur in all those cases where companies have increased their capital equipment by putting aside money out of profits to acquire further assets or to build up reserves.

To assist in the calculation of a weighted average interest rate applicable to the sum total of foreign investments, it has been possible to take a number of very extensive samples relating to the 1929 operations of a good proportion of the firms in each of the groups of public utilities (other than railways), pulp, paper and wood, mining, metal, and 'all other' industries. Previous estimates of interest rates have been revised on the basis of these results.

Interest and Dividend Rates estimated as paid on Foreign Investments in Canada, 1926-1930

	1926	1927	1928	1929	1930
On Government Securities	4.50	4.53	4.49	4.48	4.38
Railways	4.08	4.08	4.17	4.11	4.08
Other Public Utilities	3.48	3.06	2.93	2.98	3.14
Pulp & Paper, and Lumber	2.45	1.98	2.89	2.72	2.92
Mining	3.45	2.95	3.47	4.08	4.24
Metal Industries	3.53	3.87	4.47	4.14	4.00
All Other Industries	5.56	6.84	6.70	7.46	8.00
Trading Establishments	4.70	4.40	3.40	4.10	4.11
Finance and Insurance	5.22	5.16	4.96	5.04	5.00
Land and Mortgage	4.85	4.85	4.75	4.84	4.73
Weighted Average	4.15	4.18	4.24	4.31	4.37

The net result appears to be that the weighted average interest rates finally adopted (and shown in the table reproduced above) are much lower than those used hitherto. These rates, which vary between 4.15% and 4.37%, are, roughly, a full percent lower than previous estimates, and their adoption as the basis for this important calculation would seem to require some explanation. This is easily given; the results shown are supported by the conclusion which a process of a priori reasoning would seem to dictate. Thus, in the first place, it is clear that 63% of the total foreign investments in Canada on the first of January, 1930, were in governmental and railway securities, a large percentage of which consists of bonds which pay interest at a relatively low and stable rate. Actually, the total amount of foreign investment in fixed interest bearing securities will constitute an even higher percentage of total foreign investments, though the exact figure is not known.

In the second place, the computed average interest paid is calculated as a percentage of the capital employed in the various industrial groups and will, as suggested above, necessarily be lower than the rates paid on capitalisation, the more familiar connotation.

Taken together, these two factors would support the use of a series of computed average interest rates, which are both low and stable, showing little evidence of the fluctuating profits which have been typical of common stock investments in Canada in the last five years.

The estimated amounts of interest paid annually on foreign investments in Canada 1926-30 have, therefore, been reduced by sums varying roughly from $20 - 50 millions in conformity with the argument stated. A further slight adjustment has been made to take

account of the interest paid on half the net annual addition to the foreign investments in Canada during the course of each of the years under review.

The following pages are submitted in explanation of the methods by which the various totals of foreign investment in Canada and the rates of interest and dividends paid thereon, have been estimated.

Government Securities (Dominion, Provincial and Municipal)

The Public Accounts of Canada record the amount of funded debt payable in London, New York and Canada as at the close of each fiscal year. The amounts outstanding for London and New York provide a rough basis for the estimate of the British and American investments in this type of security. Some adjustment, however, has been made in these totals to take account of the repurchase by Canadians and others of such bonds as mature abroad, and of the international movement of the government bonds repayable in Canada. The figures, which relate to the fiscal year, are then adjusted to a calendar year basis. The details for 1930, given below, indicate the estimated distribution of ownership.

DOMINION GOVERNMENT FUNDED DEBT

January 1, 1930

Estimated:	Held in Canada	$ 1,706,202,867
	" " United States of America	$ 250,508,100
	" " Great Britain	$ 271,417,662
	Total	$ 2,228,128,669

The bonded indebtedness of the provinces is shown in the Canada Year Book as at the end of their respective fiscal years, the total for the nine provinces in 1929 being $819,517,036. The British and foreign participation in the total is obtained by means of periodical enquiries at the Provincial Governments, and by reference to new flotations as they occur.

PROVINCIAL GOVERNMENTS FUNDED DEBT

Estimated:	Held in Canada	$ 471,976,816
	" " United States of America	$ 279,992,784
	" " Great Britain	$ 63,279,807
	" Elsewhere	$ 5,541,000
	Total	$ 820,790,407

The total bonded indebtedness of all classes of municipalities are similarly collated by the Finance Branch of the Dominion Bureau of Statistics and reproduced in the Year Book. For 1929 the total was $1,135,022,889. An extensive enquiry amongst the municipal authorities of Canada relating to the years 1929 and 1930 disclosed the fact that the proportion of municipal securities owned outside Canada was considerably less than that hitherto adopted in making these estimates. Estimates as to the total of foreign investments in Government Securities previous to 1930 therefore appear in the current table in a revised form, the reduction being approximately $130 millions in the totals for each of the years 1926-29.

MUNICIPAL GOVERNMENTS BONDED INDEBTEDNESS

January 1, 1930

Estimated:	Held in Canada	$ 773,462,033
	" " United States of America	$ 165,372,146
	" " Great Britain	$ 142,598,444
	" Elsewhere	$ 5,959,815
	Total	$ 1,087,392,438

The estimated foreign investments in all forms of Government Securities of Canada is, therefore, $1,184,669,758 as at January 1, 1930, compared with $1,179,027,-051 for January 1, 1929, and these totals are carried into the table. Working back from the 1929 estimate, the increases or decreases in foreign investments in this field as computed at the time can be used to obtain the totals for previous years which are as shown in the table.

Estimated Rate of Interest paid on Government Securities.

The Public Accounts record the amounts of funded debt payable in London and New York, together with the interest payable thereon, which can be computed as a percentage

of the principal of the debt for each of the years in question.

The average rate paid on the total bonded debt of the provinces is derived from the statistics (reproduced in the Year Book) of total debt and total interest due thereon for each fiscal year.

The average rate paid on the bonded indebtedness of municipalities is taken to be the computed average shown by a small number of cities for which the financial statements record this information.

Finally, the three averages computed as above were combined into one weighted average for each of the years 1926-30, the results being: 1926, 4.50%; 1927, 4.53%; 1928, 4.49%; 1929, 4.48%; 1930, 4.38%. The seemingly low averages derived by this method is explainable in terms of the large volume still outstanding of Dominion bonds at 3 and 3½%.

Railways

In accordance with the interpretation of the term 'capital invested' adopted for these estimates, the basic data for the estimate of foreign investment in Canadian railways is the total shown in the Steam Railway Statistics of Canada under the heading 'investments in road and equipment' and not that of the par value of the stocks and bonds outstanding.

From this figure, which is published annually, are deducted: (1) an amount equal to the bonds issued by Provincial Governments on account of grants to railways, in order to avoid a duplication of this investment, and (2) an amount approximately equal to the investment in the United States portion of Canadian lines, this being considered as an investment abroad of Canadian railways. These deductions made, we have a figure which represents the net amount invested in Canadian railways and not duplicated elsewhere in the statistics of capital.

In order to obtain an estimate of the British and foreign participation in Canadian railway investments, information was obtained from the companies in 1930 as to distribution of ownership of stocks and bonds, etc., at the beginning of previous years, the percentages being then applied to the net total of capital invested in the railways. On the basis of this information, the estimates for years 1926-28 were revised and published in the last bulletin relating to foreign investments in Canada. The increase in British and foreign investments in railways during 1929 is estimated to have been approximately as follows: U.S.A., $104,691,000; Great Britain, $28,000,000; Other Countries, $4,250,000; Total, $136,941,000.

This accretion, added to the foreign investment as at the first of January, 1929, of $1,537,924,000 gives an estimate for the first of January, 1930, of $1,674,865,000.

By comparison, the total capital invested in Canadian railways as at the first of January, 1930, is calculated for this purpose, as follows:

Total (31 Dec. 1929) as per Steam Railway Statistics	$3,153,350,000
Deduct for provincial duplications, approximately	100,000,000
Deduct for U.S. portion of lines, approximately	112,000,000
Total	$2,941,350,000

The non-Canadian portion of this total equals $1,674,865,000 or 56.9%, as compared with 53% on the first of January, 1929.

Interest paid on Railway Securities.

The Statistics of Steam Railways show both the capitalization of Canadian railways and, under Income Account, the amounts paid as interest on funded debt and dividends, the total of which can be computed as a percentage of capitalization. Since the capitalization of railways is higher than the capital invested by approximately 20%, the rate of interest actually paid on capital invested must be increased by 20% of that computed as paid on capitalization, the results being as shown in the Summary Table.

Other Public Utilities.

This item comprises Traction, Light, Heat, Power and other forms of electrical public utility companies, Telephones, and an estimate of capital employed in public utilities for which complete statistics are not available, such as natural and fuel gas companies, together with electric stations other than central electric.

It will be observed that the estimates of foreign investments shown in the table are higher (by approximately $120 millions) than those previously published by the

ureau, the explanation being that an enquiry amongst public utility companies in 1930 evealed the fact that the non-Canadian ownership of capital appears to be approximately 3% of the total, a somewhat higher proportion than was formerly estimated. The method f estimating the foreign investments as at the beginning of earlier years was to take he estimate of foreign investment for the first of January, 1930, (computed below) and o make adjustments for the net loss or accretion which occurred in previous years by eason of foreign purchase or sale of investments in this group.

Total investments in public utilities as at the beginning of 1930 are as ollows: in Central Electric Stations $1,055 millions (Census of Industry) to which s added 10% to take into account stations other than central electric; in electric ailways, etc., $240 millions (Electric Railway Statistics); in telephone $235 millions Telephone Statistics of Canada); in public utilities not recorded - gas, etc., a rough stimate of $25 millions; total $1,461 millions, of which the non-Canadian share of 3% amounts to $628,230,000.

Working back from this estimate, the subtraction or addition of the stimated net increments and losses in foreign investments in this class during the revious years gives the revised estimates of foreign investments as shown in the ummary table.

Estimated Average Rate of Interest paid.

An enquiry recently addressed to a number of miscellaneous public utility ompanies elicited the information that in 1929, 40 of such concerns (including the on-interest or non-dividend paying companies) paid interest and dividends of 17,547,089 on a total capital employed of $587,697,361, which gives a weighted average f 2.98%. A smaller sample of 16 companies, the annual statements of which are available ack to 1926, was taken in order to get the trend of interest rates, and the 1929 figure as used as a basis for a calculation for other years. The rates so derived are shown n the summary table.

Pulp, Paper and Lumber Industries.

The estimates of foreign investments in this group of industries for 1926-29 (shown in the table) have been revised to take into account the fact that the previous ssumptions as to the distribution of ownership of capital were invalid, the amounts of on-Canadian capital invested being less each year, by roughly $100 millions, than was stimated. An extensive enquiry addressed to companies in this group in 1930 brought ut the fact that the non-Canadian ownership of stocks and bonds was approximately only 8% of the total of such capital in that year.

The basic data as to the total employed in the pulp, paper and lumber industries is given in the annual Census of Manufactures, the figure for the wood and paper group being $1,152,000,000 on the first of January, 1930. To this is added an estimate of $167 millions as the amount of capital employed in logging (complete statistics are not available) and $50 millions as the amount of capital invested in timber limits, giving a total of $1,369,075,000 for the whole group. These estimates for logging and timber limites, especially the latter, are somewhat arbitrary, and for that reason are very conservative.

The foreign investment in this group of industries, therefore, being 38% of the total capital employed, is estimated at $520,248,000 as on the first of January, 1930, and the estimates for previous years are obtained by adjusting this figure in accordance with the estimated movements of international capital in this industrial group during each previous year. The results are shown in the Summary Table.

Estimated Average Rates of Interest paid.

A recent enquiry addressed to a large number of pulp, paper and wood product industries elicited the fact that in 1929, 124 concerns paid interest and dividends of $6,622,459 on a total capital employed of $244,582.736, giving a weighted average rate of 2.72%. A smaller sampling was made of 11 of the larger corporations whose financial statements are available back to 1926 in order to discover the trend of interest rates, the averages so obtained being revised in accordance with the more accurate estimate for 1929. The rates thus computed (see table) are admittedly low (and considerably lower than those previously adopted as a result of a less satisfactory sampling) but are not unexpected in an industry which is particularly over-capitalized, and which has been passing through a difficult period in its development.

Mining and Mineral Industries.

The figures relating to capital employed in this group are taken from the annual reports on Mineral Production of Canada, published by the Bureau. The group includes, inter alia, metal and non-metal mining industries, clay products and other structural materials, and non-ferrous metal smelting and refining industries. The explanation of the inclusion of these non-mining operations lies in the difficulty of distinguishing between the capital employed in the actual mining activities and the processing operations of the same concern.

Furthermore, certain statistics (of capital employed) included under mining are duplicated by inclusion in the similar statistics of the Census of Manufactures which are used in other sections. To avoid this error they have been deducted from the total of capital employed in the metal industry group.

The capital employed in the mining industry on the first of January, 1930, is shown in the annual report on mining (as Dec. 31, 1929) at $867,021,000. This includes capital employed in all operating mines in the Dominion and excludes non-operating mines, holdings of mineral rights, and capital employed for prospecting and exploration. As estimated of $13,000,000 has been added to the $867,000,000 to cover these excluded items. It was felt that since such activities often represent capital investment from abroad in Canada, any statement of capital investments should make some allowance for them.

An extensive enquiry conducted in 1930-31 amongst mining companies indicated that the British and foreign share of capital ownership was 32% or $281,600,000 out of a total, at the above date, of $880,000,000.

Interest paid on Capital Employed in Mining.

For 1929, 175 concerns were sampled. On a total capital employed of $329,178,115, they paid interest and dividends of $13,441,935, which is an average of 4.08%. Only 40 of these paid any interest or dividends, but the figures of the more profitable undertakings bring up the average. A sampling of 9 dividend paying mines (the largest) for which annual figures are available back to 1926 is used to obtain what is assumed to be the trend of interest rates for the whole industry. Revising these rates on the basis of the more accurate estimate for 1929, results are given as shown in the table.

Metal Industries.

The statistics of total capital employed in the metal industries are taken from the Annual Census of Manufactures.

The table below indicates the groups which make up the item "metal industries", and the capital employed.

TABLE A. - METAL INDUSTRIES - TOTAL CAPITAL EMPLOYED
($000's omitted)

	1 Jan.1926	1 Jan.1927	1 Jan.1928	1 Jan.1929	1 Jan.1930
Iron & Steel Products	567,912	597,982	638,915	702,931	754,989
Non-Ferrous Metals	181,600	202,503	208,957	253,367	298,721
Non-Metallic Minerals	239,824	261,724	280,033	298,693	329,449
Total Metal Industries	989,336	1,062,209	1,127,905	1,254,991	1,383,159

Included in the above figures are the statistics for capital employed in non-ferrous metal smelting and refining (included in non-ferrous metals) and in salt, clay products, cement and lime (of the non-metallic mineral group). All these are duplicated in the mining and minerals group which has already been treated; hence the totals below have been subtracted from the totals of capital employed in Table A.

TABLE B.- CAPITAL EMPLOYED IN CERTAIN MINING AND MINERAL INDUSTRIES (STATISTICS DUPLICATED ELSEWHERE)
(000's omitted)

	1 Jan.1926	1 Jan.1927	1 Jan.1928	1 Jan.1929	1 Jan.1930
Non-Ferrous Metal Smelting	61,692	81,779	85,367	120,036	146,699
Salt	2,564	2,783	3,195	4,423	4,576
Clay Products	27,761	28,152	30,438	32,473	34,190
Cement	38,082	41,380	40,509	47,679	50,882
Lime	5,154	5,826	6,200	6,952	7,405
Total	135,253	159,920	165,709	211,563	243,752

For our purposes, therefore, the capital employed in the metal industries, making allowance for duplications elsewhere, is for 1926-30 as follows:

TOTAL CAPITAL EMPLOYED - METAL INDUSTRIES

1926	1927	1928	1929	1930
854,083	902,289	962,196	1,043,428	1,139,407

To compute the foreign share in the ownership of capital employed, the figures for the first of January, 1930, are taken as a starting point. A very wide sampling amongst iron, steel and other metal firms established the estimate of 48% as the amount of British and foreign investment on that date, as shown by the distribution of capital stock. On this basis, the foreign investments in the metal industries are therefore estimated at $546,915,000 as on January 1, 1930. Working back from this date, the estimated increases or decreases in foreign investment in this group are used to obtain the amount of foreign capital invested as at the beginning of preceding years. The estimates obtained by this method are as shown in the table of foreign investments.

These results are considerably higher (by at least $200 millions for each year) than the estimates already published. The principal reason for this is that the starting point for the original estimates was capitalization plus an allowance for the estimated difference between capitalization and capital employed. Recent investigations prove the allowance to have been much too small. The comprehensive investigation conducted in 1930-31 enables a more accurate estimate to be made.

Estimated Rates of interest paid on Capital Employed in Metal Industries.

A sampling of 142 concerns was conducted as for the year 1929. On a total amount of capital employed of $276,499,499 these firms paid interest and dividends of $11,447,479, which is an average rate of 4.14%. The trend for the whole period was obtained by a small sampling of 14 larger metal concerns the earlier statements of which were available, dividends and interest paid being calculated as a percentage of total assets.

Using the rates obtained by this sampling, and adjusting them on the basis of the estimate for 1930 of 4.14%, the averages were obtained as shown in the table.

All Other Industries.

The total amount of capital employed in this group, as shown in the Census of Manufactures, is as follows:

(000's omitted)

	1 Jan.1926	1 Jan.1927	1 Jan.1928	1 Jan.1929	1 Jan.1930
Vegetable Products	439,491	449,259	404,176	531,919	569,065
Animal Products	210,015	223,939	253,114	243,550	243,825
Textiles	305,776	317,275	346,512	365,721	383,154
Chemicals	126,483	133,407	134,619	148,940	165,887
Miscellaneous	103,282	109,670	111,178	119,603	130,118
Total	1,185,047	1,233,550	1,319,599	1,409,733	1,492,049

A wide sampling by questionnaire amongst this group of industries established the estimate of 33% as the approximate amount of British and foreign ownership at the beginning of 1930, as shown by the distribution of capital stock. On this basis the British and foreign investments in all other industries are represented by $2,376,000 out of the total capital employed of $1,492,049,000 on the first of January, 1930.

Working back from this date, the estimated increases or decreases in foreign investments in this group in each previous year have been applied to this basic estimate in order to obtain the amounts outstanding as at the beginning of previous years.

Average Rate of interest paid 1926-30.

For 1929, 147 returns from companies were sampled. On a total capital employed of $203,413,354 they paid interest and dividends totalling $15,176,693, being an average of 7.46%. To obtain the corresponding rates for previous years back to 1926, and for 1930, an examination was made of the financial statements of 22 of the larger "all other" corporations, and total dividends and interest paid was worked out as a percentage of the total assets. The rates so derived gave the trend, and adjusting these on the basis that 1929 = 7.46% the average rates were computed as shown in the table.

Trading Establishments.

Total capital employed in this group of enterprises was shown by the Census of Trading Establishments in 1924 to have been $1,580,124,000. On the basis of the answers given at the time in respect to distribution of ownership of capital stock, it was estimated that British and foreign investment in this group was approximately 9% of the total investment.

For the first of January, 1930, the total capital employed is believed to have been in the neighbourhood of $2,000,000,000 and the British and foreign share of this to have been approximately $250,000,000 or 12½%. This estimate, together with those for intermediate years, has been made by calculating the net annual increment in foreign investment in this field from what information was available, but it has not been possible to check the results by means of independent estimates derived by taking agreed percentages of the total capital employed.

The Census of Trading Establishments now being conducted in connection with the decennial census of 1931 will make available more accurate statistics both of the total capital employed and of the international distribution of ownership.

Average Rate of interest paid.

The balance sheets and revenue accounts of important trading companies for which information back to 1926 is available, were examined and the total sum paid in interest and dividends in each year were expressed as a percentage of the total capital invested in that group of concerns. The rates so derived are entered in the table. It may be criticized that this method of estimating interest rates ignores the fact that the large majority of trading establishments are not incorporated companies such as those of which the sample is composed. This, of course, is true, but the probability is that most of the foreign investments in this field consist of large scale chain stores, etc., which usually take the corporate form.

Finance and Insurance.

This item includes banks, Canadian and non-Canadian insurance companies, trust companies, investment trusts and other forms of financial institution. Apart from banks, trust and insurance companies, no official statistics are available. For banks, the term 'capital employed', as used in previous sections, is taken to mean 'liabilities to shareholders', i.e., capital plus reserve funds. On this basis, the total capital as at the first of January, 1930, was $301,029,000. Information secured as to the distribution of ownership of the shares of the chartered banks shows that on the same date, 10.12% were held in Great Britain and the Empire, 17.30% in U.S.A. and 1.29% elsewhere, a total non-Canadian ownership of 28.71%. This gives a non-Canadian investment in banks of approximately $86,425,000.

For insurance companies, the general principle adopted is that 'capital employed' consists of the surplus of assets over liabilities excluding capital stock, the details of which are published annually by the Dominion Superintendent of Insurance.

The statistics of capital (excess of assets over liabilities) for purely Provincial companies are not available in any combined total, but since these companies control approximately only 5 to 10% of the fire and 2 to 3% of the life business, and the foreign participation in this more local enterprise is probably small, the problem is narrowed down to the field of Dominion licensed companies.

Adequate statistics are available of the capital employed by both Canadian and non-Canadian companies and the theoretical problem as to the proportion held by non-Canadians is decided as follows:

(1) The capital stock of British and foreign companies licensed to do business in Canada is considered as being wholly owned by the parent British and foreign companies.

(2) The capital stock of purely Canadian companies is considered, for this purpose, to be wholly owned in Canada.

These assumptions, of course, are not strictly valid. Investment interest in each type of company is international, but in the absence of the details of the exact distribution of ownership, which only an elaborate questionnaire can give, it is believed that the errors involved in the assumption are mutually counterbalancing and the estimates are reasonably correct.

Dominion Insurance Companies, 1 Jan. 1930.

Capital employed = surplus of assets over liabilities excluding capital stock.

Fire	British Companies	$ 32,468,833
	Foreign "	25,538,977
Life	British "	$ 19,688,473
	Foreign "	26,816,964
Total British & Foreign capital employed		$104,513,247

For Trust Companies, which, on account of the nature of their transactions, are peculiarly provincial institutions, the totals of paid up capital plus reserves must be taken for both the Dominion and Provincial licensed groups. It is assumed for this purpose that the non-Canadian ownership of capital bears the same ratio to the total capital as in the case of banks above. Thus, the non-Canadian investment is estimated at $18,086,000 out of a total capital employed of approximately $62,994,060.

The total foreign investment in all financial institutions and insurance companies is therefore estimated at $209,022,000 as at the first of January, 1930. Estimates have also been made by this method for previous years back to 1926, and the revised figures, which are somewhat higher than the estimates made in previous bulletins, are carried into the table. It is necessary, however, to point out that these are probably under-estimates by reason of the exclusion of any calculation for other forms of financial institution (such as investment trusts) the accounts of which are not yet compulsorily lodged with government departments.

Average Rates of interest paid.

These were obtained by listing for each year, in one column, the total of capital plus rest (for banks) and the excess of assets over liabilities excluding capital stock (for all Canadian fire and life insurance companies). This represents the capital invested in this group. In the second column were listed the interest and dividends paid by the same banks, and by all Dominion life and fire companies. The sampling for insurance makes use only of the published statistics (summarized in the annual reports of the superintendent of insurance) of Canadian companies; separate details of interest and dividends are not available in the case of British and foreign companies. The weighted average interest rates derived by this method are shown in the table.

Land and Mortgages.

The estimates of foreign capital invested in this field are the most unsatisfactory of all by reason of the absolute lack of data and they cannot therefore be regarded as much more than an 'intelligent guess'. The item includes capital invested in or loaned on land and real estate or invested in land and mortgage companies.

t excludes land or other real estate used for the general purposes of business as included in previous items, and timber limits, allowance for which has been made under the ulp, paper and lumber section. The estimates of foreign investments for the first of anuary, 1926, were made very arbitrarily on the basis of the foreign investments in oan and trust companies and of the assets in Canada of the principal British and foreign oan and mortgage associations, together with other miscellaneous data respecting interests in land acquired by non-Canadians. The estimate for the first of January, 1930, s that out of a total of $563,394,000, the non-Canadian holdings of land and real estate nd loans made thereon was as follows: British, $139,160,000; U.S.A., $97,960,000; ther countries, $50,913,000 or a total non-Canadian investment in Canada of $338,033,000 60%). These figures all exclude private capital in the form of home-sites, houses and arms.

verage Rate of interest paid.

Foreign investment in city lands and other such real estate in many cases rings no annual income, but on the contrary bears an annual cost in the form of taxes. or this reason, the computed average rate must be lower than that normally paid on ortgages. It has seemed reasonable therefore to consider as typical the rate of nterest earned by the Dominion loan companies on the total assets (and published nnually by the Superintendent of Insurance) since the principal business of these companies is the lending of funds on first mortgage securities, and to take three quarters f this as the average estimated rate returned on all investments in land.

CANADIAN INVESTMENTS ABROAD AND INTEREST RECEIVED THEREON

The estimated sum received annually from Canada's foreign investments is, f course, not so large as the corresponding payments to foreigners who have invested n Canada, but the present estimate of $88 millions in 1930 is sufficiently large to arrant careful calculation.

As in the case of the similar payments outwards, the estimated holdings of oreign investments by Canadians is treated as the basic figure, and a computed weighted verage interest rate is applied thereto.

The table below shows the estimated Canadian investments abroad, under the arious classifications, as at the beginning of each calendar year. The first item onsists, of course, of purely short term balances. The estimates under the first four eadings are believed to be reasonably accurate since they are compiled largely from official statistics. Direct industrial investments abroad by Canadians is arrived at y frequent enquiry of the Canadian corporations who maintain foreign branch plants; but the data is insufficient and the estimate is purposely kept low. The miscellaneous foreign investments of Canadians, quantitatively the most important form of capital exports, is a rough estimate, since direct information is meagre as to the purchase and sale of foreign stocks and bonds by Canadians on foreign (particularly the New York) Stock Exchanges.

It is hoped that in the near future more information will become available and better methods devised for estimating the magnitude of these two latter forms of foreign investment.

ESTIMATED CANADIAN INVESTMENTS ABROAD, 1926-1930

000's omitted

	1 Jan. 1926	1 Jan. 1927	1 Jan. 1928	1 Jan. 1929	1 Jan. 1930
Canadian Government loans and balances abroad	56,695	47,426	47,244	57,810	46,731
Foreign balances of Chartered Banks	196,231	260,560	238,447	187,597	97,997
Foreign Securities held by Banks	102,420	89,227	95,682	67,363	68,104
Foreign investments of Insurance Companies	245,890	269,459	285,969	293,391	350,467
Direct Industrial Investments Abroad	260,000	275,000	297,818	329,132	354,132
Miscellaneous foreign Investments	275,179	388,914	613,914	803,914	863,914
Total	1,139,415	1,330,586	1,579,074	1,739,207	1,776,255

The methods, by which the weighted average rate of interest to be applied to the estimates of capital invested abroad is computed, are described in the paragraphs below. Here again the estimates must be rather more arbitrary than those adopted for the calculation of the per-contra investment, since we are not able to draw upon official statistics to the same extent, nor to make frequent use of the questionnaire method of obtaining samples.

DIVIDEND AND INTEREST RATES ESTIMATED AS RECEIVED ON CANADA'S FOREIGN INVESTMENTS

	1926	1927	1928	1929	1930
anadian Government loans and balances	3.47	4.51	3.85	3.13	3.85
oreign balances of Chartered Banks	4.50	4.06	6.04	7.61	2.93
oreign Securities held by Banks	5.10	5.36	5.53	5.50	5.40
oreign Investments of Insurance Companies	5.75	5.73	5.69	5.67	5.46
irect Industrial Investments	4.08	4.08	4.17	4.11	4.08
iscellaneous foreign investments	3.75	3.91	4.38	4.60	5.25
Weighted Average	4.49	4.46	4.88	5.00	4.91

It will be observed that the weighted average rates of interest come out ather higher by 30 to 70 points than those estimated as paid on foreign investments n Canada. It is, of course, to be expected in general that a higher rate than is paid t home is necessary in order to attract Canadian capital abroad.

The gross movement of interest inwards is calculated by multiplying the otal capital investment figure by the computed average interest rate for the correspond- ng year, and adding to the product six months' interest on the total increase or de- rease in foreign investments in the succeeding year.

The following paragraphs are submitted in explanation of the methods by hich the various items of foreign investment abroad, and the rates of interest earned hereon, have been estimated.

anadian Government credits and balances abroad.

This item comprises the amount outstanding on account of loans made by anada to foreign governments, during and after the war, and the balances kept by the ominion Government in banks in New York and London. The details are abstracted from he Public Accounts, which show approximately $7 millions owing by Greece, $24 millions ving by Roumania, and balances in New York to the extent of $29 millions, as at the nd of the fiscal year, March 1930. These statistics have been reduced to a calendar ear basis for inclusion in the statement of foreign investments. Interest received on oreign loans (together with some repayment of principal) is shown in the Public Accounts, nd the earnings on the Government bank balances abroad estimated at $500,000 annually.

The average rate of interest shown in the table is then derived by com- aring actual interest received with the capital sum in each year.

alances of Chartered Banks abroad.

This item is calculated from the end of the year returns published by the hartered Banks and consists of the difference between the assets and liabilities abroad f all Canadian Banks for the stated dates. The details for the 31st of December, 1929, ay, 1st Jan. 1930) are appended.

(000's omitted)

Foreign Assets		Foreign Liabilities	
ue from Banks in U.K.	$ 5,199	Deposits outside Canada	$441,622
" " elsewhere	96,453	Due to Banks in U.K.	26,729
ill and short-loans outside Canada	245,172	" " " elsewhere	81,254
her current loans and iscounts outside Canada	250,638		
Total earning assets	597,462		549,605
n-earning assets -i.e.U.S. & other foreign currencies	50,140	Excess of assets over liabilities	97,997
Total	647,602	Total	647,602

It may be argued that the interest which Canadian banks receive on their oreign loans and which they pay on their foreign deposits have no place in the balance f international payments in so far as they will probably remain on deposit abroad in he one case, and be paid out of non-Canadian profits on the other--that no international ransactions are involved.

The same problem has already been discussed in the section devoted to the earnings of Canadian insurance companies abroad. In this particular case the justification for including the bank earnings is the same--we count the increase in the foreign assets of Canadian banks as an increase in foreign investments, as an export of Canadian capital (if we include this item in the balance of payments). In so far as this increase of assets was made as a result of foreign earnings, it is not really an export of Canadian capital; hence we compute the net interest earnings and count them as an import of funds in the balance of payments so as to compensate.

Estimated Rate of interest received.

In order to preserve a uniform method of calculating the interest received on foreign investments, it becomes necessary to apply a computed average rate to the figure which represents the net foreign investment, i.e., excess of foreign assets over foreign liabilities plus half the increase or decrease that total in the succeeding year. A glance at the table above, however, makes it abundantly clear that, in the first place, not all the assets can be said to earn revenue, i.e., foreign coin and currency held, and secondly, that the call and other loans outside Canada will earn a considerably higher rate of interest than must be paid on deposits, so that it will not be correct to apply some average lending rate to the net surplus of assets abroad without adjustment and explanation. It has been possible, however, to make a reasonably satisfactory calculation as to what the net interest receipts would be, for each of the five years in question, the method being, briefly, to use the annual averages as shown in the Year Book instead of the year end statistics and to estimate the probable interest paid or received on each item in the accounts. The details of this calculation are available in this Bureau to those interested.

The difference between total interest payments (on liabilities as defined above) and total interest receipts (on assets) gave the estimated annual earnings of Canadian banks on their surplus of assets abroad. The results were found to be very little different from what would have been obtained by applying a flat rate (that charged on call loan renewals in N.Y.) to the net surplus of assets shown at the end of each year plus half the increase or decrease in the succeeding year. In order, therefore, to keep the general symmetry of method we have adopted this more simple device. The rates used are as shown in the table.

NON-CANADIAN SECURITIES HELD BY CANADIAN BANKS

Foreign investments of the chartered banks are not shown separately in the combined monthly statements, but the information has been obtained direct from the various institutions. The total foreign investments of all the banks on the first of January, 1930, was $68,105,000, an increase of $742,000 on the 1929 figures.

Estimated Rate of interest received.

Banks are particularly conservative in their investment policy and their holdings are largely in government and municipal bonds, Treasury bills and the like, much as are the foreign investments of most Canadian Insurance Companies. It has seemed reasonable, therefore, to take the computed rate of interest earned by the four largest insurance companies on their total investments in bonds, debentures and debenture stocks (domestic and foreign) as being typical of bank investments. This method makes the fairly reasonable assumptions that the geographical distribution of the foreign investments of banks is the same as for the insurance companies, and that the foreign bonds of the latter bring in the same rate of return as the foreign and domestic bonds. The computed rates applicable to foreign investments of banks are shown in the table.

FOREIGN INVESTMENTS OF CANADIAN INSURANCE COMPANIES

Foreign assets of Canadian companies are abstracted separately from the annual statements in the report of the Superintendent of Insurance. It will be noticed there that these assets pertain almost entirely to Canadian Life Companies, so that a slight addition has been made to cover life companies which do not record their foreign assets separately, and the foreign assets of other than life companies. Recent totals are as follows:

	Jan. 1929	Jan. 1930
Foreign assets of Canadian Insurance Companies	$293,391,000	$350,468,000

Estimated Rate of interest earned.

To compute the rate of interest applicable to these investments we take the figure given in Table 21A of the Insurance Report relating to total ledger assets, book value. This item includes all the investments of Canadian companies, in which loans on real estate, policy loans, bonds and debentures and stocks predominate. This relates to domestic and foreign investments. Table 31A gives the total of interest, dividends and rent received which can be calculated as a percentage of the relative investments (assets). Thus, the statement for the year ending the 31st of December, 1930, shows that the interest on $1,436,192,207 of total ledger assets of all Canadian companies was $78,431,040, a return of 5.46%. The results for 1926-30 are: 1926, 5.75; 1927, 5.73; 1928, 5.69; 1929, 5.67; 1930, 5.46.

Assuming that the interest and dividends received on foreign investments are at the same level as those received from total (domestic and foreign) investments, and assuming also that the companies distribute the foreign investments amongst the different classes (policy loans, etc., bonds, stock) in the same proportions as domestic investments, then we are justified in taking these rates, already weighted as they are, as fair averages to be applied to the foreign investments of the insurance companies.

DIRECT CANADIAN INVESTMENTS IN PRINCIPAL UNDERTAKINGS ABROAD

The total shown in the table under this heading comprises estimates relating to the following: (1) The branch plants and other assets abroad of Canadian concerns which have been expanded outside the national boundaries, mainly in the United States. A number of these concerns have been noted, and details obtained as to the amounts of capital involved. (2) The two principal Canadian railway systems which have large mileages owned or controlled in the United States, as discussed in the section on freight payments. The net profit on these operations are believed to be small. Details as to the amounts of capital invested are obtained from the Transportation Branch of this Bureau. (3) Canadian controlled companies, the entire operations of which take place abroad, such as the public utility corporations in Central and South America. About a dozen of these companies have been noted. Although Canadian companies, with Canadian head offices and active Canadian management, some of the largest of these concerns have only a small amount of Canadian capital invested in them most of it being British or European. An estimate of the amount of Canadian investment is made still more difficult by the fact that most of the securities are unregistered i.e., payable to bearer, and at the same time are actively traded in on the London, New York, Brussels, Toronto and Montreal Exchanges. Any estimate of the Canadian portion, therefore, cannot be regarded with much confidence, but it is believed that the estimates incorporated herein are conservative.

Estimated Rate of interest earned.

It is impossible to compute the rate of interest earned on such investments except by a frequent circularization of all the corporations and railways concerned, an impracticable procedure. Rough estimates can be made, however, on the basis of the more plentiful material available in respect to similar domestic concerns. The average rate of interest earned by all Canadian railways on their capital invested has been adopted as typical for this whole class of foreign investments, in which foreign railways comprise a large portion, after making comparisons with the rates suggested by miscellaneous data dealing with the profits of foreign companies in South America and elsewhere.

CANADIAN INVESTMENTS IN MISCELLANEOUS FOREIGN SECURITIES

This item consists of all those holdings of foreign stocks and bonds not included in any of the above categories. Little direct information is available and a considerable margin of error is likely to be present.

Some little information is available in the reports and estimates of the U.S. Department of Commerce as to the sales by U.S. bond houses and banks to foreigners and Canadians, and record is kept in this Bureau of the new foreign issues to which Canadians would be likely to subscribe. With a realization of the inadequacy of this method of computation, the sums shown in the table have been estimated at what is believed to be a conservative figure.

Estimated Rate of interest earned.

Owing to the varied nature of these investments, it becomes impossible to make a direct sampling of interest rates. The actual rates of yield are probably low by

reason of the fact that purchases in many cases were made originally for capital appreciation, rather than for immediate dividends. At a rough guess, the rates would be at least equal to the computed rates paid by Canadian industrial enterprises-(pulp and paper, mining, metal, all other) on their capital employed. A simple average of these rates is therefore applied in this case.

REMITTANCES MADE BY IMMIGRANTS

A considerable amount of money is mailed by immigrants in Canada to friends and relatives abroad. Newly arrived people in the Canadian west begin to repay those who assisted them in coming to Canada in the first place and to help bring out others. At Christmas the traditional gifts now take the form of money. In the case of a country like Canada where so many of its people have family ties abroad some estimate of the volume of remittances is necessary for inclusion in the balance of payments. There is, of course, a reverse movement of funds from Canadian emigrants (mainly the U.S.) into Canada.

It has not been possible to obtain any direct information as to the sums of money remitted on these counts, It is believed that a large proportion of the remittances will be made by the simplest method, that of the Post Office money order. In addition, of course, it is certain that remittances are made through the agencies of banks and express companies who have developed the business of foreign remittances very energetically in recent years, and some currency will be sent through the mail. It is impossible even to guess at the volume of these remittances.

For purposes of estimate therefore, we have made the admittedly arbitrary assumption that the sums remitted by immigrants through these non Post Office channels is equal to the amount of money order remittance arising out of pecuniary transactions (small purchases abroad, etc.). That is to say, by this device of substitution, we take the totals of Post Office money order remittances as equivalent to the total sums transferred abroad by immigrants in Canada and remitted here by Canadian emigrants abroad. The money order statistics are recorded in the Canada Year Book by fiscal year and have been adjusted to a calendar year basis, and the results are incorporated in the Summary Balance of Payments. The estimates for 1930, for which Post Office statistics are not yet available, are made tentatively as follows: remitted abroad by immigrants in Canada, $23 millions; remitted to Canada by Canadian immigrants, $14 millions.

EXPENDITURES OF GOVERNMENTS

This item comprises on the 'debit' side expenses incurred abroad incidental to the operations of Canadian government departments, and includes, inter alia: The operation of Canadian legations, grants to the League of Nations and other expenses connected therewith; advertising and exhibition expenditures and the maintenance of immigration and commercial intelligence services abroad. The items are abstracted from the relevant sections of the report of the Auditor General and amounted to a total of $3,372,000 for the fiscal year ending March, 1930. In addition, the payment of pensions to persons resident in Great Britain, the United States and elsewhere is included in the above heading, details being obtained from the Board of Pensions Commissioners for Canada. This item accounts for between six and seven million dollars annually, making a total 'debit' of $10,379,000 in 1930. Expenditures in Canada by British and foreign governments on account of consular and diplomatic services and the like, and by the British and other Ministries of Pensions, provide a contra item of what appears, from very rough estimates, to be a very similar amount--$11,750,000 per annum in recent years. These figures, of course, do not include interest on government debt paid or received from abroad, since this is provided for in the calculations of interest under Section 4 of the balance of payments. Supplies purchased abroad are similarly excluded because of their inclusion in merchandise imports.

WAR DEBT RECEIPTS - REPARATIONS

The Dominion of Canada has received certain special monies in recent years, arising out of the various German reparation Settlements, in amounts which have varied with the alterations in the annuities which Germany has paid. Canada's percentage share of the total proportion allotted to the British Empire was settled at the Spa Conference in 1920, and remains virtually the same today. The reduction in Germany's payments proposed by the Hague Agreement, which adopted the Young plan with minor modifications, will involve a slight reduction in Canada's receipts in subsequent years. The following particulars of reparation receipts have been abstracted from the Public Accounts of Canada and, since the amounts are relatively small and unchanging, fiscal year receipts are entered in the summary balance of payments opposite the previous calendar year.

Received on account of German reparations for fiscal years ending March 31st:

1927, $1,756,704; 1928, Dawes Plan, $3,002,047, pre-Dawes Plan arrears, $3,789,430; 1929, $4,025,165; 1930, $4,325,274; 1931, estimated at $4,000,000. To the receipts for the fiscal year ending in 1929 might be added the sum of $662,442 received from the British Treasury in final settlement of war claims.

EDUCATIONAL, CHARITABLE AND MISSIONARY CONTRIBUTIONS

Canadian colleges and research institutions receive grants from British and American endowments, notably from the Carnegie and Rockefeller foundations; religious bodies in Canada receive contributions from parent bodies and others abroad.

On the other hand, Canadian churches maintain missionary services abroad out of the proceeds of Canadian contributions.

It is difficult to estimate the sum total of these remittances and receipts involving, as they do, thousands of separate organization units. From information supplied by the chief American foundations and from a number of Canadian colleges and religious bodies, relating to the year 1928, we judge that the total annual receipts from abroad have varied between $900,000 and $1,500,000 in recent years.

An earlier enquiry addressed to the various religious organizations gave somewhat incomplete results which seem to suggest annual remittances abroad of approximately $1,800,000.

EARNINGS OF CANADIAN INSURANCE COMPANIES ABROAD, AND OF BRITISH AND FOREIGN INSURANCE COMPANIES IN CANADA

The preliminary abstract of statements of insurance companies in Canada for the year 1930, published by the Department of Insurance, Ottawa, discloses the fact that in that year there were 13 Canadian life companies transacting business in foreign fields, in Great Britain, the United States and its possessions throughout the West Indies and in Central and South American Countries. Business was also carried on farther afield in India, Ceylon, China, the Malay States, Japan, Syria, Egypt, Palestine and South Africa. Table 5A of the 1930 Report shows that Canadian life companies had 876,981 assurance policies in force abroad at the end of the year covering risks of nearly three billion dollars. The significance of their foreign operations is brought out in Table 4A which indicates that out of a total premium income of $298,226,671 received by Canadian life companies on account of life assurance and annuities, $154,380,656 (or more than 50%) was received from foreign business. The corresponding receipts from fire insurance abroad was slightly more than six million dollars. The importance of these foreign operations in respect of life and fire insurance obviously warrants the inclusion in the balance of payments of an estimate of the net income derived therefrom.

Against this item, of course, must be set the net earnings of British and foreign insurance companies in Canada. Thus, in 1930 there were 28 Canadian, 8 British and 18 Foreign insurance companies actively conducting life business in Canada. The proportions in which the three groups of companies share the Canadian business is brought out by the following table, taken from the 1930 Report.

LIFE INSURANCE IN CANADA

	Premium income & consideration for annuities 1930	Net amount of new business paid for in cash, 1930	Net amount in force Dec. 31, 1930
	$	$	$
Canadian Companies	143,846,015	594,843,540	4,319,430,221
British Companies	4,935,858	10,769,103	117,494,846
Foreign Companies	73,942,742	279,275,855	2,055,571,155
Total	222,724,615	884,888,498	6,492,496,222

With regard to fire insurance, 52 Canadian, 63 British and 108 foreign companies were in active business in 1930 in Canada. The distribution of the new fire business, indicated by the net premiums written in 1930, is shown in the following table:

FIRE INSURANCE IN CANADA

	Net premiums written, 1930	Gross amount of policies new and renewed
Canadian Companies	11,249,320	1,893,663,707
British Companies	23,742,067	4,517,521,928
Foreign Companies	20,101,511	3,866,221,366
Total	55,092,898	10,277,407,001

Similarly for the various classes of casualty insurance, the Canadian, British and foreign groups each received in the neighbourhood of 14 million dollars of premium income in 1930.

So far as the balance of payments is concerned, the situation may be put as follows: (1) Canadian insurance companies earn monies abroad represented by the excess of foreign receipts over foreign disbursements (including taxes, expenses and commissions) which may be said to arise from the export of Canadian insurance "services". (2) A counterbalancing and smaller import of British and foreign insurance "services" arises out of the operations of British and foreign companies in Canada.

The figures relating to the excess of foreign receipts over foreign disbursements for Canadian companies can be calculated from the published statistics of the Department of Insurance and the question arises: How shall it be brought into the balance of payments?--as a net invisible export, i.e., a credit item representing an inflow of funds to that extent?

The theoretical (and statistical) difficulty is that not all of such earnings are remitted to Canada. In a large measure they will be left abroad in the form of new foreign investments. On the other hand, the increase in the insurance companies' holdings of foreign investments will not measure the extent to which foreign earnings have been left abroad because the companies frequently increase their foreign investments by the use of Canadian funds.

There is, of course, a fairly clear correlation between the increase in foreign business and earnings, and the increase in foreign investments. Insurance companies are compelled by law in many countries to hold domestic investments in proportion to domestic risks. Nevertheless, a large part of the net revenues of insurance companies earned abroad is available to pay for imports in times of unbalanced merchandise trade, for example. The possibility of this should be brought out in the balance of payments by treating the total excess of foreign receipts over foreign disbursements as an invisible export involving an inflow of funds. In order to indicate the real nature of such revenues it must be understood that on the debit side, included in the item 'export of capital' is an amount equal to the increase in foreign investments held by insurance companies.

Exactly the same reasoning may be applied to the treatment of the earnings of foreign insurance companies in Canada. The net excess of receipts over disbursements is an import of foreign services, and the funds are assumed to flow outwards. The compensatory movement is shown in the increase of Canadian investments held by British and foreign insurance companies in Canada, i.e., by the inward flow of capital.

This appears to be the best approach to the problem. It is not possible to obtain from the insurance companies their net foreign receipts or remittances because their books are not set up to record such information. In any case the use of such data, if obtainable, would be questionable. As stated, it would indicate neither the quantitative importance, nor the trend of insurance transactions in the balance of payments. The net remittance might show fluctuations from year to year according to the varying investment policy of the domestic Head Office and might be inflated in any one year by reason of the inclusion of profits made on the sales of foreign investments. It may also be argued in favour of the treatment suggested above that if the increase in the Canadian investments of foreign insurance companies (along with other foreign stock holders) is to be shown in the balance of payments as an inflow of foreign capital, which, of course, is the case, then the net gains of foreign companies in Canada, which provided the means for such new investments ought to be shown on the other side of the statement of the balance of payments.

The same argument applies to the increase in investments abroad by Canadian nsurance companies.

nsurance Remittances made direct.

It is probable that certain insurance costs are paid by people domiciled n Canada through the mail or by bank remittance direct to foreign insurance companies hich do not maintain branch offices in Canada. In the case of immigrants from U.S.A. nd Great Britain it is probable that the majority of the premiums are paid in Canada and therefore recorded) since most of the important life offices have branches in anada—the inconvenience of foreign remittance would recommend this procedure. There re, however, certain cases of unrecorded insurance remittances but in the absence of oncrete information, they are assumed to be relatively small and counterbalanced by irect insurance remittances to Canada.

arnings of Canadian Insurance Companies Operating Abroad.

ife Insurance -

Acting upon the assumptions discussed above the calculation of the net ain on the foreign operations of Canadian life companies is made by taking the premium ncome earned outside Canada (Annual Report, Table 34A) and deducting from this: (1) The otal disbursements in respect of Death Claims, Surrender Values, Dividends to Policy olders, Life Annuities, etc. (Annual Report, Table 3A), and (2) the General Expenses. he total expenses incurred on foreign business is not shown separately, but Table 36A ould appear to indicate that the general expenses and taxes incurred by Canadian ompanies on both domestic and foreign business over the last four years averages 25.3% f the total premium income. The foreign disbursements under general expenses is herefore computed at 25% of the total foreign premium income.

The estimate for 1930, using this method, is arrived at as follows:

CANADIAN LIFE COMPANIES
(000's omitted)

Total premium income outside Canada	$131,318
Consideration for Annuities	23,062
Total	154,380
Net Disbursements - Claims, Annuities, etc.	86,452
Expenses - 25% of total premium income	38,595
Total	125,047
Computed net gain	29,333

ire Insurance -

17 Canadian companies conducted fire insurance business outside Canada in 930, chiefly in Newfoundland, the United States, Great Britain, and the West Indies. he company wrote risks in most parts of the world. The net gain on foreign business, owever, does not appear to be large. In 1929, premiums received were $6,519,000; osses paid or incurred were $3,144,000; and general expenses and taxes taken as 50% f the premium income (the average for all fire insurance in Canada) are estimated at 3,259,000. The net gain to Canadian fire offices on their foreign business for 1929 s, therefore, estimated at $116,000. For other than life and fire insurance, the total et gain of Canadian companies appears to have been less than one million dollars in 930, and the foreign share of this may be considered as negligible.

arnings of British and Foreign Insurance Companies in Canada.

ife Insurance -

The net gain of British and foreign life companies, derived from their anadian operations, is computed by exactly the same method as in the contra item. rom the published figures relating to income in Canada of British and foreign companies, ncluding premiums, interest, dividends, rents, are deducted:

(1) The income derived from interest, dividends, and rents, shown separately. Allowance has already been made for this credit.

item in the calculation in the balance of payments relating to interest on foreign investments in Canada.

(2) Disbursements of the companies in Canada, including taxes, general expenses, deaths, maturities, etc. These details are available in a summarized form in the Annual Reports. The residual figure may be considered as net gain earned by British and foreign companies in Canada, and amounted in 1930 to $17,922,000, a decrease of nearly $2,000,000 on the estimated 1929 results.

Fire Insurance.

Against the premium income of British and foreign companies in Canada must be set the losses and adjustment expenses incurred, and the general expenses and taxes. By this method, the computed balance, on fire account, in favour of British and foreign companies amounted to approximately $1,316,000. The net gain under this heading has diminished considerably from the 'high' of 1929 of over 8 million dollars, due not so much to a decrease in premium income as to an increasing volume of losses.

OTHER FORMS OF INSURANCE UNDERTAKEN BY BRITISH AND FOREIGN INSURANCE COMPANIES

The premiums received on the various forms of casualty insurance--accident, automobile, guarantee, etc., in 1929 was as follows:-

British Companies	$ 13,859,000
Foreign Companies	$ 15,765,000
Total	$ 29,624,000

Assuming that the net gain from such business amounts to 10% of the premium income (this percentage being derived from the fire insurance statistics, where details are available) the net gain for 1929 may be estimated at $2,962,000.

Total casualty insurance for 1930 showed a very slight decrease on the 1929 results. The net gain of British and foreign companies is therefore estimated at $2,900,000.

SUMMARY - INSURANCE, PAYMENTS AND RECEIPTS

(000's omitted)

Net gain of Canadian companies abroad	Life	$29,333
" " " " " "	Fire	150
Total		$29,483
Net gain of British and foreign companies in Canada	Life	$17,922
do	Fire	1,316
do	Casualty	2,900
Total		$22,138

The estimates for the years 1926-29 have been revised, and the results obtained by the above methods are shown in the Summary Balance of Payments. It will be observed therein that by reason of a slight decrease in the operations of British and foreign insurance companies in Canada since 1927, and a marked increase in the activities of Canadian companies abroad, the net 'debit' balance of approximately $13 millions in 1926 had become a credit balance of $7 millions by 1929.

ADVERTISING EXPENDITURES

The trade statistics of Canada show the amount of advertising materials imported into this country but, of course, no record is available as to the sums received by Canadian newspapers and other advertising media on account of services performed in Canada for British and foreign advertisers. That the amount of such advertisement is fairly considerable cannot, however, be doubted. Thus, the U.S. Bureau of Foreign and Domestic Commerce (Finance and Investment Division) reported in 1929 that "the total foreign advertising bill of the United States was not less than $50,000,000-- much of this goes to Canada".

There is also a flow of advertising funds in the reverse direction. The total sum spent by the Canadian government on account of advertising and exhibitions, or in connection with immigration, is already allowed for in the estimate of government expenditures. In addition, however, the Provincial governments remit funds abroad to pay for advertising services, particularly in connection with the tourist business, and as an aid to the marketing of provincial products. Canadian exporters and the railway companies all advertise abroad.

It is believed that the majority of foreign advertising in Canada is undertaken through the medium of the newspaper and magazines, although bill-boards, radio and street car signs may account for a little foreign revenue. In this connection it must be remembered that the advertisement expenses in Canada of branch plants of of American concerns do not constitute a foreign receipt but are chargeable to Canadian profits.

A questionnaire addressed to the principal newspapers and magazines in Canada elicited the information that for 140 out of the 175 agencies included in the survey the total amount of revenue directly derived from British and American sources was approximately $2,700,000 in 1929 and $2,635,000 in 1930, of which the greater part came from the United States. Allowing for non-recorded newspaper and magazine revenues and for other forms of advertising services bringing in foreign receipts, we estimate the total credit item on advertising account to be $4,000,000 in 1929 and 1930. On the "debit" side no estimate had been made in previous years but recent enquiries suggest that in actual fact the outflow of advertising funds, far from being negligible, is greater than the corresponding inflow. The most important category is provided by the larger Canadian industrial corporations and railways, 19 of which concerns spent $2,340,000 in 1929 and $2,679,000 in 1930 in foreign advertising. The railway expenditures abroad make up the greater part of these totals but it is believed that if it were possible to obtain the foreign advertisement expenses of all forms of Canadian enterprises, the results would be at least double the above amounts. To this must be added the sums spent in advertising by Provincial governments, including herein the maintenance of colonization and immigration branches abroad, and Boards of Trade and Chambers of Commerce. From the evidence provided by the Public Accounts of the provinces and by answers to questionnaires, we estimate that $500,000 will cover this item. The total 'debit' on advertising is estimated, therefore, to have been $5,280,000 in 1929 and $6,000,000 in 1930.

MOTION PICTURE ROYALTIES

There are roughly 1,100 moving picture theatres in Canada, all making use of imported films and, frequently, of foreign projection apparatus. As a rule, films and apparatus are not bought outright but are leased or hired on a royalty basis. For this reason the value assigned to the imports of cinematograph films in the Trade returns was deducted from the total of imports and it therefore becomes necessary to estimate the actual remittances sent abroad annually in payment of royalties and rentals in this industry. We have no direct information to go upon at the moment. The U.S. Department of Commerce estimates that the foreign receipts of American motion picture producers is roughly $70,000,000 per annum. Assuming this to be correct it seems reasonable to conclude that the Canadian contribution to this total is about 5% or $3,500,000 annually. This figure is taken as the total 'debit' and is believed to be a conservative estimate since no account has been taken of payments to Great Britain (known to be small) for films and to the foreign producers of talking picture machines which also pay royalties.

CAPITAL OF IMMIGRANTS AND EMIGRANTS

An attempt is made herein to estimate the amount of monetary capital brought into Canada by immigrants and taken out by emigrants. The only suitable method appears to be to estimate the per capita amount of capital brought into or taken out of the country by the several classes of immigrants and emigrants (by country of origin or destination) and to multiply these amounts by the corresponding numbers of people involved. The estimated amounts per capita brought in are necessarily very arbitrary, and the statistics of total emigration, at least, not very satisfactory, so that no great reliance can be placed on the final estimates of the gross investments of immigrant capital. It may be advanced, however, in support of such inadequate estimates, that the main purposes in compiling the balance of payments statement, namely, to indicate the net movement of funds each year and the variations in their figure from year to year, will be served by their inclusion.

Immigration into Canada

Immigrants into Canada are classified according to the following table, taken from the current Canada Year Book.

IMMIGRANTS INTO CANADA

Fiscal years ending March 31st	Immigrant Arrivals from -			Total
	United Kingdom	United States	Other Countries	
1926	37,030	18,778	40,256	96,064
1927	49,784	21,025	73,182	143,991
1928	50,872	25,007	75,718	151,597
1929	58,880	30,560	78,282	167,722
1930	64,082	30,727	68,479	163,288
1931	27,584	24,280	36,359	88,223

A movement not shown in the immigration figures is that of returned Canadians who originally left Canada to reside in the United States and who on returning to Canada declared their intention of resuming their residence in this country. Since the statistics include only those who have been in the United States for more than six months such returning Canadians may be considered as bringing in capital, the result of their earnings in the United States, in much the same manner as immigrants into Canada from that country. Hitherto this consideration has been ignored in our calculation of capital imported by immigrants, and the present estimates are higher, on that account, than those previously published.

CANADIANS RETURNED FROM THE UNITED STATES

Fiscal year ending March,	1926	47,221
	1927	56,957
	1928	39,887
	1929	33,797
	1930	29,830
	1931	30,209

Capital brought in by Immigrants

For purposes of estimate, the fiscal year statistics of immigrants and returning Canadians are adjusted to a calendar year basis on the assumption of equal monthly distribution. The next task is to estimate the amount of cash which each class of immigrant shown in the above tables may be said to import. In the first place, it must be remembered that of the immigrants properly so called, slightly less than 45% of the total in recent years consist of adult women and children under 14, the effect of which should be to reduce any estimate of per capita imports made on the basis of male immigrants. It is also certain that of the immigrants from Great Britain and the Continent of Europe, many will have had their travelling expenses in Canada paid by relatives already here and some by the various settlement or charitable agencies in this country.

Taking all these factors into account, and after making comparison with the estimates used on former occasions (notably those of Prof. Viner in respect to the period 1900-1913, and of Coats' Cost of Living Report 1914) it has seemed reasonable to take the following as typical of the per capita import of capital of immigrants, by country of origin: Great Britain, $50; Other Countries, $25; U.S.A. (farmers and farm labourers) $500; Other U.S. immigrants, $100; U.S.A. returning Canadians, $100.

The explanation of the large sum assigned to farmer immigrants from the United States is that this estimate must include, in many of such cases, an amount representing the proceeds of sale of farms and farm buildings in the United States, whence they come with some of their livestock and implements to buy cheaper land in Canada.

The totals in the table following are carried into the balance of payments as an invisible export, i.e., a receipt of foreign funds.

ESTIMATED TOTAL CAPITAL IMPORTED BY IMMIGRANTS INTO CANADA

Imported by Immigrants from -	1926	1927	1928	1929	1930
	$	$	$	$	$
Great Britain	2,329,750	2,530,000	2,843,900	3,139,000	1,835,400
U.S.A. (farmers & farm labourers)	4,306,500	4,151,500	4,435,000	3,818,000	3,172,000
U.S.A. (other immigrants)	1,233,100	1,570,900	2,030,200	2,304,700	1,954,500
U.S.A. (returning Canadians)	5,452,300	4,415,400	3,532,500	3,082,200	3,011,400
Other Countries	1,623,750	1,877,100	1,941,025	1,773,250	1,109,750
Total	14,945,000	14,544,900	14,782,625	14,117,150	11,083,050

Capital taken out by immigrants

No official statistics of emigration from Canada are kept but it is possible to make a reasonable calculation as to its volume by the use of the British and U.S. official statistics relating to immigration from Canada. The sources of information are given in the footnotes. As in the similar case of returning Canadians, whom we included in the immigration total, it has been decided to include in the statistics of emigration the numbers of U.S. citizens returning to that country permanently, being former residents of Canada.

It need hardly be said that statistics of emigration, by the very nature of things, are nonetoo reliable, particularly in the case of the movement across the Canadian-U.S.A. boundary, but it is believed that the table below indicates sufficiently the variations in the movement.

EMIGRATION FROM CANADA - CALENDAR YEARS

	1926	1927	1928	1929	1930
Emigrants to U.S.A. (1)	93,468	76,830	63,488	69,131	47,800
Emigrants to Great Britain (2)	10,481	12,570	15,804	12,294	15,820
Emigrants to Other Countries (3)	4,054	2,[illegible]1	2,458	2,524	2,606
U.S. Citizens - former residents of Canada - returning permanently to the United States (4)	9,500	8,716	7,670	8,022	9,167
Total Emigration	1[illegible]7,503	100,887	89,420	91,971	75,393

(1) U.S. Department of Labour, Bureau of Immigration - 'immigrant aliens admitted to the U.S.A., who gave Canada as their last permanent residence, during calendar years'. The 1930 figure is an estimate on the basis of the published statistics for 11 months only.

(2) Official British Statistics (Board of Trade Journals) 'immigrants from Canada'.

(3) Counting the emigration to the U.S.A. and Great Britain, and allowing for immigration into Canada and the computed natural increase in the population of Canada, the total loss of population not otherwise accounted for in the inter-censal period 1911-1921 was 3.1% of the recorded emigration. This percentage is therefore applied to the total of recorded emigration to the U.S.A. and Great Britain in order to compute the amount of emigration to other countries.

(4) U.S. Bureau of Immigration - These statistics only began to be published in 1928, and relate to fiscal years. They are therefore adjusted to a calendar year basis. The figures shown for 1926 and 1927 are estimates.

Capital taken out by emigrants per capita.

It will be seen in the above table that the greater part of the emigration movement was to the United States, particularly in the earlier years. It may be assumed that a considerable share of the total is made up of younger Canadians seeking more remunerative employment across the border, and of some Canadians and former U.S. residents who have met failure and unemployment in Canada. Also, rather less than 40% of the emigrants to the U.S.A. in 1930 were listed as having no occupation, largely women and children, and only slightly more than 10% of the total were farmers and members of the professional and commercial classes who might be expected to take with them larger amounts of capital comparable with that assumed to be brought in by farmer immigrants from the United States.

In view of these considerations it is considered that $125 per capita is a reasonable estimate of the amount of money taken out of Canada by all emigrants (1). The results are shown in the following table:

ESTIMATED TOTAL CAPITAL TAKEN OUT BY EMIGRANTS FROM CANADA

	1926	1927	1928	1929	1930
	$	$	$	$	$
Emigrants to U.S.A.	11,683,500	9,603,750	7,936,000	8,641,375	5,975,000
Emigrants to Great Britain	1,310,125	1,571,250	1,975,500	1,536,750	1,977,500
Emigrants to Other Countries	506,750	346,375	307,250	315,500	325,750
U.S. Citizens returning	1,187,500	1,089,500	958,750	1,002,750	1,145,875
Total	14,687,875	12,610,875	11,177,500	11,496,375	9,424,125

(1) This estimate is roughly equal to that adopted by Viner - "Canada's Balance of International Indebtedness 1900-1913", allowing for the alterations in the general price level in the intervening period.

EARNINGS OF CANADIAN RESIDENTS EMPLOYED IN THE U.S.

As the recent annual statements of the U.S. Bureau of Foreign and Domestic Commerce on the "Balance of International Payments of the United States" have pointed out, there has been a considerable number of Canadian residents commuting daily for employment in the United States. The automobile workers of Windsor and other border cities who have been on the pay-roll of Detroit factories provide the best illustration of this form of invisible earnings.

The estimates of the U.S. Bureau of Canadian earnings for the period 1928 and 1929 amounted to $12,000,000 in Detroit, $2,625,000 in Buffalo and $300,000 in Niagara Falls, N.Y. The per-contra estimate of the earnings of American residents employed in Canadian boundary cities was $1,200,000. The net "credit" for those years was therefore placed in the summary balance of payments at $13,725,000.

The present business depression, which has been particularly acute in the automobile industry, was responsible for a very pronounced shrinkage in the amount of pay-rolls of Canadian commuters working in the United States (minus the per-contra movement).

The net figure for the Detroit region in 1930 seems to have been only about $2,790,000, and for the Buffalo district about $906,000, according to recently published American estimates.

CANADA

DEPARTMENT OF TRADE AND COMMERCE

DOMINION BUREAU OF STATISTICS

The Canadian

CANADA'S BALANCE OF INTERNATIONAL PAYMENTS

1926-1931

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CANADA'S BALANCE OF INTERNATIONAL PAYMENTS

1926-1931

CONTENTS

FOREWORD

Purpose and Meaning of Balance of International Payments Statement

"Balance of Trade" figures are frequently misinterpreted due to the persistence of the doctrine long ago exploded that a nation's trade is necessarily in a healthy state when exports exceed imports necessitating an import of gold to make up the difference. Trade was then said to show a "favourable" balance. This theory only took account of the "visible" or commodity items of trade, whereas the true balance of a nation's trade can only be known when not only the commodity items are considered, but also the "invisible" items such as interest, freight, immigrant remittances, financial services, tourist traffic, etc. In short, all debit and credit transactions must be set down in order to find out the true balance. If all the visible and invisible items are thus tabulated the debit or credit difference will be a final invisible item -- capital import or export -- and this will bring the nation's trade account into a state of balance.

To take the nation's commodity trade alone as an index of its prosperity or otherwise, would be somewhat akin to considering the returns received by a man from the daily trade or business which is his principal activity and ignoring other sources of revenue or records of indebtedness incurred from other lines of activity.

As a matter of fact, the commodity or trade balance of a country cannot be understood by itself but only as it is interpreted in the light of the invisible items of a country's activities. In the light of such data, it will be found that a so-called favourable or unfavourable balance will mean entirely different things at different times in a country's history.

From 1868 to 1893 the normal condition in Canada was an excess of imports over exports. In only two years (1880 and 1881) was this reversed. From 1894 to 1903 we had an excess of exports which is explained largely by interest on and repayments of borrowed capital. In 1904-1914 a period of heavy capital borrowing supervened, and as a result imports exceeded exports. With the commencement of the war we entered upon a period of excess commodity exports which continued until 1929 with the exception of 1921, in which fiscal year we had an excess of imports. In 1929 and 1930 imports exceeded exports, while in 1931 exports and imports approximately balanced.

The balance of international payments which takes account, not only of commodity trade, but of all transactions, reveals the meaning of the trade balance. It shows, for example, that in 1920, 1921 and 1922 our international accounts were balanced by large imports of capital, although our commodity trade balance was favourable in 1920 and 1922. During these years Britain repaid us war funds as follows: 19~~22~~20, $104,000,000; 1921, $128,000,000; 1922, $84,000,000. From 1923-1928, however, the international accounts show a credit balance after allowing for interest payments and maturities, thus denoting capital exports. In these years Canada became temporarily a capital exporting country. In these latter years, therefore, the explanation of our favourable commodity trade balance was quite different from that for the period, 1894 to 1903, when it was explained by payments of interest and maturi-

ties.

From the foregoing it will be seen that an estimated balance of international payments is indispensable to the understanding of trade accounts. It has, however, a great many other important uses, among which the following may be mentioned:

1. To give a comprehensive picture of our international debits and credits and how they are balanced.

2. To show the extent of our international borrowings and lendings.

3. To show the magnitude of individual invisible items, such as interest, freights, tourist traffic, etc., in our international transactions.

4. To explain exchange disturbances and the effect of international financial difficulties.

5. To furnish data for guidance in the formulation of international fiscal, financial and commercial policy.

CANADA'S BALANCE OF INTERNATIONAL PAYMENTS

PART I

1. Canadian Balance of International Payments, 1926-1931.

Estimates of Canada's international balance of payments are shown in the accompanying table for the years 1926 to 1931, inclusive. The outstanding feature is the great change which has taken place in the volume of merchandise trade since 1929. A favourable balance varying from approximately $140 to $185 million during the period 1926 to 1928 became an unfavourable balance of approximately $100 million in 1929 and 1930, and practically reached a position of equilibrium in 1931. In 1929 and 1930 there were unfavourable balances, considering both visible and invisible items of $65 and $159 million respectively, while in 1931 the balance was favourabe to the extent of about 33 millions of dollars. In the light of all available information, it appears that the balances in 1929 and 1930 represent a net movement of capital into Canada for investment, while that of 1931 represents a net movement outwards. In the latter year, however, the capital export appears to have been in the main not for investment but for the purpose of retiring maturing issues and for repurchases. The inward movement of capital in 1929 and 1930 contrasts with capital exports for several years earlier, as shown by favourable balances of payments.

2. Effect of the Depression on Balance of Payments.

Declines in the amounts by various items of the statement during the last three years indicate the tremendous effect upon Canada's international transactions in goods and services wrought by the depression. Merchandise exports fell from $1,200,000,000 in 1929 to $608,000,000 in 1931. While a large proportion of the

decline is explainable in terms of lower price levels, it does represent a huge falling off in volume. An excellent illustration of the special difficulties presented to Canada by the slump in world prices, is seen in the table of index numbers of imports and exports which shows that Canada, in common with most countries whose exports consist largely of primary products, suffered a greater reduction in the prices of her export commodities than was characteristic of the prices of imported goods. In other words, the purchasing power of Canada's exports declined drastically in 1930.

INDEX NUMBERS OF EXPORT AND IMPORT VALUES

(1913 = 100)

		EXPORTS	IMPORTS
Calendar year	1926	147.0	131.7
	1927	144.0	127.0
	1928	137.6	127.3
	1929	136.9	122.9
	1930	117.2	115.1
	1931	95.2	95.2

3. How Was Adjustment Achieved

In view of the great changes which occurred in our international transactions from 1929 on, giving rise to unfavourable balances of all items in 1929 and 1930, and to a position nearly approaching equilibrium in 1931, the question arises as to how the accounts were adjusted. In this connection, the gold movements should be examined. These were as follows during the period 1926 to 1931: -

	Exports of Gold	Imports of Gold	Difference between gold exports and imports (x for export - for import)	Difference between all Debits and Credits (x for credit - for debit)
		(000's omitted)		
1926	80,131	47,126	x 33,005	x 228,422
1927	64,231	31,257	x 32,974	x 137,050
1928	107,614	39,659	x 67,955	x 201,398
1929	50,598	3,746	x 46,852	- 65,475
1930	25,343	39,062	- 13,719	- 159,533
1931	70,062	2,038	x 68,024	x 27,790

4. Change from Capital Exports to Capital Imports

In the years 1926 to 1928, Canada was an exporter of capital made possible, in large measure, by favourable balances of merchandise shipments amounting to $285 million, $161 million and $143 million, respectively, in the three years. 1929 saw a drastic change in international transactions. A credit balance of $201 million in 1928 became a debit balance of $65 million in 1929, a reversal amounting to $266 million. In 1930 the debit balance had increased to $159 million.

5. The Transfer Problem.

The difficulty of the transfer problem envisaged in these figures was reflected in the state of the foreign exchanges which were at a premium during most of 1929 and the early part of 1930, the price of New York funds being for a considerable period beyond the gold export point. Despite the increased cost of foreign purchases caused by higher prices of foreign exchange, imports did not show any decrease until 1930, and in that year both imports and exports fell by almost equal amounts. Neither

was the trade deficit counterbalanced by an export of gold, since this deficit amounted to $100 million in 1929 and net gold exports to only $47 million, an actual reduction of $20 million, as compared with 1928. Moreover, in 1929 exports of quartz gold, shipped to take advantage of the premium on New York funds, accounted for 20 of the $47 million; an amount twice the normal value shipped in this way. Since the items of the balance sheet, exclusive of commodities and gold, yield an adverse balance, the solution was not found in them; hence the conclusion that the deficit in the balance of payments was offset by capital imports either in the form of investments by foreigners or repatriation of funds.

6. Capital Movements, 1929

Unfortunately, the statistics of current capital movements leave much to be desired, but such as do exist point clearly to the conclusion that there was a movement, on balance, of short and long term funds into Canada in 1929. Short term funds employed by the chartered banks largely in New York, fell from $188 million at the beginning of 1929 to $98 million at the end of the year. There was also a considerable repatriation of private short term capital, though no definite information is available as to its amount. The conclusion is warranted that Canadian holdings abroad acted as a shock absorber in reducing the effects of the maladjustment in Canada's balance of payments in 1929, and that the remainder of the task was performed by an inward movement of foreign capital.

7. Capital Movements, 1930

In 1930 the difficulty arising from an adverse balance

on all items of $159 million was again met. This time, however, the foreign balances played a small role and the brunt of the burden was borne by capital imports. Gold also showed a net inward movement of $14 million, the first since 1925.

This inward movement is illuminating in view of the general situation and merits comment. In the early part of 1930 the Canadian dollar was quoted at a slight discount in New York, continuing so until May when it returned to par. From then until early in December it was at a premium of approximately 1% in New York. Accompanying these fluctuations in the exchange, the gold movement was sluggish in the first half of the year, but showed a considerable inward movement in the last half, nearly $15 millions of gold coin and bars being imported in August alone, and a slightly larger amount in the next three months. In December, New York funds were again at a premium, and a net export of gold amounting to $13 million occurred, but taking the year as a whole the net import was $13.7 million. The evidence of these fluctuations indicate that taking the year as a whole, there was little evidence of any maladjustment in Canada's balance of international transactions, and, in fact, a demand for Canadian funds which resulted in an inward flow of gold. In view of the fact that the balance of payments, exclusive of the capital items, was severely against the Dominion, the only means by which equilibrium could be achieved was through a considerable influx of capital. Again what direct evidence is available corroborates the conclusion. Not only was there an inflow of foreign capital for investment, but also some repatriation of Canadian funds.

8. The Situation in 1931

In 1931 the situation with regard to international transactions had undergone another considerable change. The unfavourable commodity balance was reduced to less than $4 million. The invisible unfavourable balance (all items exclusive of commodities, gold and capital) was $36 million, a total of $40 million adverse. There had been a net gold shipment of $68 million, nearly twice as much as the adverse balance, excluding gold, of $40 million. The gold movement therefore offset the deficit of $40 million, and, supposing no errors or omissions in the statement, allowed for a capital export of approximately $28 million. Available evidence indicates that this amount consists in the main of repayment, retirement and repurchase of Canadian securities held abroad. The estimate of capital movements in 1931 is as follows: -

INVESTMENTS INWARD		
New issues sold abroad and new direct investments in Canada	207,217,000	
Refunding, repayments, redemptions, etc. ..	256,000,000	
Net Decrease		49,000,000
INVESTMENTS OUTWARD		
New foreign issues bought	10,000,000	
Old " securities bought	15,000,000	
	25,000,000	
LESS resale to foreigners of securities previously held, of direct investments and decreases in other investment items abroad	11,000,000	
Net Investment Abroad		14,000,000
TOTAL OUTFLOW OF CAPITAL		63,000,000

While this estimate shows a larger outflow than that in-

dicated in the balance of payments statement, it corroborates the direction of the flow.

9. Gold Movement in 1931.

With this falling off in capital import and the consequent necessity of a capital export to liquidate maturing loans and interest charges, and in view of the existence of an unfavourable balance of commodity and service transactions, enough gold had to be shipped to cover both. In 1931 this was the only way out if our international payments were to be equilibrated. That it was not done without strain on our gold reserves is obvious from the following table:-

CANADIAN GOLD STOCKS

December 31st, 1925 - 1931.

(000's omitted)

	Current gold and subsidiary coin held by Canadian Banks		Gold held by Banks in Central Gold Reserves	Gold held by Minister of Finance Against Dominion Notes and Savings Bank Deposits	Total Canadian Stocks
	In Canada	Elsewhere			
December 1925 ...	49,915	18,772	18,910	137,858	226,455
" 1926 ...	44,528	27,962	26,910	131,195	230,595
" 1927 ...	48,061	28,458	21,245	130,733	228,497
" 1928 ...	46,908	30,115	20,631	93,317	190,971
" 1929 ...	46,852	26,442	14,631	62,995	150,920
" 1930 ...	47,403	36,636	13,631	96,212	193,882
" 1931 ...	45,961	19,856	10,682	66,960	143,459

10. Relation of Imports and Exports in the Balance of Payments, 1931

In view of the disappearance of the capital import balance, that the ensuing adverse situation was met without greater difficulty was a noteworthy achievement. Fortunately, the burden of interest payments was almost offset by receipts from the tourist traffic. Freight transactions left us with a deficit of over $25 million and

other invisible items nearly offset each other. What greatly lessened the difficulty was the fact that while exports declined $286 million, imports declined $381 million; the result being that the adverse trade balance of $100 million in 1929 and 1930 was wiped out and in 1931 Canada paid for her imports by her exports.

11. Conclusion

In conclusion, some general remarks may be made on the subject of international payments. Each year Canada has an unfavourable balance on invisible items which has varied from $10 million to $90 million, the figures from 1926-1931 being as under:

1926	$90	million	1929	$15	million
1927	57	"	1930	48	"
1928	10	"	1931	31	"

Average -- $42 million

Maturing obligations, including short term loans each year, are estimated to amount to between $100 million and $150 million. To offset these items a favourable balance on merchandise and bullion account of from $140 million to $190 million would be required providing all capital imports including refunding were cut off. Production of gold amounts to about $60 million per year, therefore, a favourable balance on merchandise account would be required annually, amounting to from $80 to $130 million on the supposition of cessation of capital imports.

CANADA'S ESTIMATED BALANCE OF INTERNATIONAL PAYMENTS, 1926-1931

($000's omitted)

	1926		1927		1928		1929		1930		1931	
	Exports Visible and Invisible	Imports Visible and Invisible	Exports Visible and Invisible	Imports Visible and Invisible	Exports Visible and Invisible	Imports Visible and Invisible	Exports Visible and Invisible	Imports Visible and Invisible	Exports Visible and Invisible	Imports Visible and Invisible	Exports Visible and Invisible	Imports Visible and Invisible
	$	$	$	$	$	$	$	$	$	$	$	$
1. Commodity Trade - Recorded merchandise exports and imports	1,283,939	1,008,342	1,238,782	1,087,118	1,374,246	1,222,318	1,208,338	1,298,993	905,370	1,008,479	617,243	628,098
Deductions for settlers' effects and other non-commercial imports	-12,326	-21,774	-11,020	-22,504	-10,926	-21,395	-11,679	-24,614	-10,957	-23,814	9,328	16,751
Unrecorded imports of ships	-	24	-	1,860	-	19,230	-	19,230	-	7,470	-	500
Real Total of Commodity Trade	1,271,613	986,592	1,227,762	1,066,474	1,363,320	1,220,153	1,196,659	1,293,799	894,413	992,135	607,915	611,847
2. Exports and imports of gold coin, bullion and subsidiary coin	80,131	47,126	64,231	51,257	107,614	39,659	50,598	3,746	25,343	39,062	70,062	2,038
3. Freight payments and receipts n.o.p.	88,714	106,288	89,826	109,140	88,266	115,433	85,541	130,855	68,815	100,908	49,670	76,528
4. Tourist expenditures	201,167	98,747	238,477	108,750	275,230	107,522	309,379	121,645	279,238	113,292	250,776	76,452
5. Interest payments and receipts	55,452	223,639	64,885	235,052	80,966	246,916	87,886	258,907	88,220	272,586	70,722	252,076
6. Immigrant remittances	15,550	20,509	15,433	22,423	14,421	23,195	14,036	23,385	14,000	23,000	10,051	13,110
7. Government expenditures & receipts	11,948	10,863	11,850	11,751	11,819	11,030	11,750	11,300	11,750	10,379	11,750	10,960
8. Government receipts, reparations	1,757	-	6,791	-	4,688	-	4,325	-	4,000	-	1,295	-
9. Charitable and missionary contributions	814	1,878	873	1,766	1,373	1,800	900	1,800	900	1,800	900	1,800
10. Insurance Transactions	10,835	23,827	19,194	29,486	35,761	28,790	31,990	24,418	29,483	22,138	27,000	20,000
11. Advertising Transaction	3,143	4,500	4,482	4,800	3,858	5,000	4,000	5,280	4,000	6,000	3,000	5,000
12. Motion picture royalties	-	3,500	-	3,500	-	3,750	-	3,750	-	3,750	-	3,750

CANADA'S ESTIMATED BALANCE OF INTERNATIONAL PAYMENTS, 1926-1931 - Cont'd.

($000's omitted)

	1926		1927		1928		1929		1930		1931	
	Exports Visible and Invisible	Imports Visible and Invisible	Exports Visible and Invisible	Imports Visible and Invisible	Exports Visible and Invisible	Imports Visible and Invisible	Exports Visible and Invisible	Imports Visible and Invisible	Exports Visible and Invisible	Imports Visible and Invisible	Exports Visible and Invisible	Imports Visible and Invisible
	$	$	$	$	$	$	$	$	$	$	$	$
13. Capital of immigrants and emigrants	14,945	14,689	14,545	12,611	14,783	11,178	14,117	11,496	11,083	9,424	5,173	3,820
14. Earnings of Canadian residents employed in U. S. A.	10,000	-	11,000	-	13,725	-	13,725	-	3,696	-	1,857	-
15. Exports and imports of electrical energy (1)	4,600	89	4,798	87	-	-	-	-	-	-	-	-
16. Allowance for import overvaluations due to Exchange depreciation	-	-	-	-	-	-	-	-	-	-	5,000	-
17. Allowance for exchange on N. Y. payments	-	-	-	-	-	-	-	-	-	-	-	5,000
18. Known omissions such as direct magazine subscriptions, artists and entertainers receipts, radio programmes, etc.	-	-	-	-	-	-	-	-	-	-	-	5,000
19. Difference between all exports and imports (2)	-	228,422	-	137,050	-	201,398	65,475	-	159,533	-	-	27,790
TOTAL	1,770,669	1,770,669	1,774,147	1,774,147	2,015,824	2,015,824	1,890,381	1,890,381	1,594,474	1,594,474	1,115,171	1,115,171

(1) Included in Commodity Trade since 1928.

(2) This item represents amount of capital movements subject to errors and omissions.

PART II

ESTIMATED BALANCE OF PAYMENTS BETWEEN CANADA AND EMPIRE COUNTRIES AND BETWEEN CANADA AND THE UNITED STATES

A. Great Britain

1. Limitations of This Estimate

An attempt has been made to compile a separate statement of international payments between Canada and Great Britain and Canada and the United States. It's limitations are admitted. If a general statement of international payments can only be considered an approximation, one confined to transactions between two countries must be subject to a wider margin of error. For a number of items, data are available only for total debits or credits and not by countries. In such cases, arbitrary guesses have sometimes to be made regarding the geographical division.

2. Means of Balancing Payments, Great Britain - Canada

In the case of Great Britain, however, the principal items are the commodity trade and interest receipts and payments, the figures for which are not subject to arbitrary estimation. In 1931, Canada had a favourable commodity trade balance with Britain amounting to approximately $60 million but an unfavourable balance in interest payments of $88 million. As all other items in the balance statement practically offset each other, a difference of about $24 million unfavourable to Canada remained. There is no evidence to show that it was settled by lending from Great Britain, in fact what evidence is available indicates that on balance repurchases and redemptions amounted to more than new capital coming from Great Britain. The only other way by which settlement could be made is through the medium of credits with some other nation or nations. This, of course, precludes arguing capital movements from the indirect evidence of balance of payment statements between two nations.

ESTIMATED BALANCE OF PAYMENTS
CANADA AND GREAT BRITAIN
(000's omitted)

	1931 Exports Visible and Invisible	1931 Imports Visible and Invisible
	$	$
1. Commodity Trade - Recorded merchandise exports and imports	172,461	109,470
Deductions for settlers' effects and other non-commercial imports	2,822	1,339
Unrecorded imports of ships	-	500
Real Total of Commodity Trade	169,639	108,631
2. Exports and imports of gold coin, bullion and subsidiary coin	1	18
3. Freight payments and receipts n.o.p.	10,305	9,928
4. Tourist expenditures	9,900	12,708
5. Interest payments and receipts	3,706	92,236
6. Immigrant remittances	911	3,060
7. Government expenditures & receipts	5,350	4,445
8. Government receipts, reparations	-	-
9. Charitable and missionary contributions	100	-
10. Insurance Transactions	10,000	4,100
11. Advertising Transactions	250	1,500
12. Motion picture royalties	-	150
13. Capital of immigrants and emigrants	384	2,233
14. Allowance for import over valuation due to exchange depreciation	4,500	-
15. Allowance for known omissions such as direct magazine subscriptions, entertainers, etc.	-	400
16. Difference between all exports and imports	24,363	-
TOTAL	239,409	239,409

3. Complexity of Settlement Process

It would, in any event, be meaningless to attempt to do so. Our debits and credits with London would not be settled on the basis of our actual commercial transactions in goods and services with that country alone. London is the clearing centre for most Empire countries. Our debits and credits with India, Australia and Fiji, New Zealand, South Africa, etc., would probably mostly be settled through London. It is the clearing centre for many foreign transactions also, so that in the end we might find that, though on the basis of our transactions confined to Canada and Great Britain alone we were debtors to London, when all transactions settled through London were taken into consideration London would be our debtor. The situation is still further complicated by the fact that London transactions mostly come through New York.

B. Other Empire Countries

No attempt has been made to present balance of payment statements with other countries in the Empire apart from Great Britain. However, with the remainder of the Empire, commodity trade would bulk so largely as to make other items relatively unimportant. The following table contains the import and export items for the Calendar Year 1931: -

TRADE OF CANADA WITH SPECIFIED EMPIRE COUNTRIES

(000's omitted)

	1931 Imports	1931 Exports
Irish Free State	42	2,640
East Africa	1,498	600
South Africa	4,417	9,202
West Africa	312	406
Bermuda	88	2,034
India	4,781	3,863
Ceylon	1,693	62
Straits Settlements	669	438
Other British East Indies	14	-
British Guiana	4,248	892
British Honduras	160	1,330
British Sudan	13	1
British West Indies -		
Barbados	2,861	1,111
Jamaica	4,199	2,910
Trinidad and Tobago	3,049	2,632
Other British West Indies	1,470	2,849
Falkland Islands	-	-
Gibraltar	-	13
Hong Kong	688	1,407
Malta	1	366
Newfoundland	1,561	6,880
Oceania -		
Australia	6,260	4,765
Fiji	2,978	143
New Zealand	1,509	4,573
Other Oceania	-	5
Palestine	16	36
	42,527	49,158

C. United States

In the last twelve years Canada's commodity trade balance with the United States has been adverse, on the average to the extent of $225,000,000 per year. The important invisible items in the international accounts are tourist traffic, interest and freight. Heavy net interest and freight payments must be made to the United States while Canada has a large balance in her favour from tourist traffic. As a matter of fact, tourist receipts have, during the last few years, been sufficient to more than offset our payments for interest and freight. Other invisible items approximately offset each other.

In some years heavy shipments of gold, of which Canada is now producing over $50,000,000 per year, have further reduced the adverse balance.

For many years until 1931 no difficulty was experienced in meeting our adverse balance. Expansion had been so great that capital movements were easily adequate to meet it. Indeed, in the period 1924 to 1928, Canadian prosperity was such that we became, during those years, a capital exporting country. In 1929 and 1930 we resumed the role of capital importers.

In 1931 the meeting of our obligations to the United States became more difficult since the flotation of capital issues in New York ceased in the latter part of the year. Details of the international account are set out in the accompanying table which shows how balance was achieved. Tourist net receipts offset net interest and net freight payments and other invisible items approximately balanced. Almost $70,000,000 gold was shipped.

ESTIMATED BALANCE OF PAYMENTS
CANADA AND THE UNITED STATES

(000's omitted)

	1931	
	Exports Visible and Invisible	Imports Visible and Invisible
	$	$
1. Commodity Trade - Recorded merchandise exports and imports	266,682	393,776
Deductions for settlers' effects and other non-commercial imports	5,212	14,817
Unrecorded imports of ships	-	-
Real Total of Commodity Trade	261,470	378,959
2. Exports and imports of gold coin, bullion & subsidiary coin	69,557	1,945
3. Freight payments & receipts n.o.p. ...	32,004	55,982
4. Tourist expenditures	238,758	56,902
5. Interest payments and receipts	40,505	153,018
6. Immigrant remittances.....	8,233	7,849
7. Government expenditures & receipts ...	4,900	3,625
8. Government receipts, reparations	-	-
9. Charitable & missionary contributions.	800	-
10. Insurance Transactions	12,000	15,750
11. Advertising Transactions	2,700	3,500
12. Motion picture royalties	-	3,600
13. Capital of immigrants & emigrants	4,673	1,481
14. Earnings of Canadian residents employed in U. S. A.	1,857	-
15. Allowance for exchange on N.Y. payments	-	5,000
16. Allowance for known omissions such as direct magazine subscriptions, entertainers, radio, etc.	-	4,500
17. Difference between all exports and imports	14,654	-
TOTAL	692,111	692,111

The most significant fact, however was a reduction in our commodity adverse balance to $107,000,000, less than one-half of the average for the last twelve years.

In view of the increasing difficulty of trading with the United States because of the latter's tariff policy (which has recently included copper and lumber) and the exchange barrier which has arisen through the cessation of capital movement from New York, it was inevitable that efforts should be made to reduce our imports from that country. It may also be said that, apart from other considerations, the force of circumstances impels the Dominion to seek other markets in which she may purchase the goods she requires and in which she may sell her commodities to meet her obligations. The same circumstances force her to seek other sources from which to obtain capital for the development of her resources.

CANADA

DEPARTMENT OF TRADE AND COMMERCE

DOMINION BUREAU OF STATISTICS

INTERNAL TRADE BRANCH

CANADA'S BALANCE OF INTERNATIONAL PAYMENTS

1926-1932

Published by Authority of the HON. H. H. STEVENS, M. P.,
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Minister of Trade and Commerce.

DEPARTMENT OF TRADE AND COMMERCE
DOMINION BUREAU OF STATISTICS - CANADA
INTERNAL TRADE BRANCH

Dominion Statistician: R. H. Coats, B.A., F.S.S. (Hon.), F.R.S.C.
Chief, Internal Trade Branch: Herbert Marshall, B.A., F.S.S.

Canadian Balance of International Payments Statement 1926-1932

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FOREWORD

Canadian Balance of International Payments

1. "Balance of Trade" figures are frequently misinterpreted due to the persistence of an old doctrine long ago exploded that a nation's trade is in a healthy state when exports exceed imports necessitating an import of gold to make up the difference. Trade was then said to show a "favourable balance". This theory only took account of the "visible" or commodity items of trade, whereas a true statement of a nation's international position can only be known when not only the commodity items are considered, but also the "invisible" items such as interest, freight, immigrant remittances, financial services, tourist traffic, etc. In short, all debit and credit transactions must be considered - all the valuable things received from other countries must be balanced against all the valuable things transferred to other countries during a given period of time. This account must balance; if it does not balance the fault lies with the inadequacy of the estimates for individual items. Many of these estimates are bound to be rough approximations. Errors and omissions are inevitable. Where direct estimates of capital borrowings and lendings are not made, it is customary to regard the balancing item as representing the net capital movement and the inevitable margin of error.

2. A nation's balance of international payments, therefore, may be defined as a tabular presentation of the amounts of the various visible and invisible exports and imports of the country, so arranged as to show their comparative size and interrelationships, their influence upon foreign exchange and upon international gold movements. Such a compilation is indispensable for a study of the country's financial and economic position and policies. Among its more important uses may be mentioned the following:

(1) It gives a comprehensive picture of a country's international debits and credits and how they are balanced.

(2) It shows the extent of international borrowings and lendings.

(3) It shows the magnitude of individual invisible items, such as interest, freights and tourist expenditures in international transactions.

(4) It explains exchange disturbances and the effect of international financial difficulties.

(5) It furnishes data for judging economic tendencies and for guidance in the formulation of fiscal, financial and commercial policies.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS
1 9 3 2

Balances from 1929-1932

1. In 1931, Canada's balance of international payments had shown an excess of credits over debits (excluding capital movements) amounting to approximately $28 million, which compared with an excess of debits amounting to $159 million in 1930 and $65 million in 1929. The 1932 balance of payments statement shows an excess of credits (exclusive of capital movements) amounting to $72 million. Commodity trade was favourable to the extent of nearly $80 million. There was an unfavourable balance of "invisible" items (all items exclusive of commodities, gold and capital, and including the omission and error estimate) of $123 million. Net gold exports in terms of Canadian currency were $67 million. Gold and commodity favourable balances less the unfavourable balance in invisibles, leaves a net favourable balance of $23 million.

Error and Omission Estimate

2. If there were no omissions nor erroneous estimates in the balance of payments statement, the difference between all debits and credits, exclusive of capital movements, viz., $72 million, would be the correct figure for the net outflow of capital during the year. Since much of the data included in this calculation must be the result of estimation, and since it is inevitable that in such an extensive inquiry some items will elude detection, then the difference between debits and credits will contain errors and omissions as well as capital movements.

Direct Estimate of Capital Movement

3. For this reason, the indirect evidence of capital movement furnished by the balance of payments statement should be supplemented by an investigation designed to arrive at a direct estimate. Available data on capital

movements in 1932 may be summarized as follows:

(000's omitted)

	Debit	Credit
	$	$
Sale and purchase of securities, including repurchases, redemptions, sinking funds, etc.	100,000	150,000
Maturities paid during the year	75,000	
Direct investments by other countries in Canada		2,000
Net outflow of capital		23,000
	175,000	175,000

Interpretation of the Capital Figures

4. It will be seen from this estimate that, on balance, there was an export of capital from Canada amounting to $23 million. Since this is $49 million less than the difference between all debits and credits in the balance of payments statement, the latter amount must be taken as the error and omission estimate. While it is true that the export of capital amounting to $175 million exceeded imports amounting to $152 million by $23 million, a large proportion of the capital export was for the purpose of meeting maturities and redemptions. Maturities alone amounted to $75 million. If the latter amount is deducted from our capital exports without considering other deductions for redemptions, sinking funds, etc., the table indicates that Canada was a capital importing country to the extent of $52 million.

How Balance was Achieved

5. Consideration of these data setting forth the details of the Canadian balance of payments will reveal how balance in international accounts was achieved.

Commodity Trade

6. Commodity trade declined still further in 1932. In 1931, exports were $608 million against $497 million in 1932. Imports were $612 million in 1931 and $417 million in 1932. Last year, however, was characterized by a greater fall in imports leading to a favourable balance of $80 million, while in 1931 exports and imports were nearly in balance. This was, of course, an important factor in easing the situation as regards payments abroad.

Gold Movements

7. Gold again was a very important item on the credit side of the Canadian balance sheet. In Canadian currency, there was a net export of $67 million. This large export left reserves a little reduced as compared with the previous year.

CANADIAN GOLD STOCK

December 31st,
1925-1932

(000's omitted)

	Current Gold and Subsidiary Coin held by Canadian Banks		Gold held by Banks in Central Gold Reserves	Gold held by Minister of Finance against Dominion Notes and Savings Bank Deposits	Total Canadian Stocks
	In Canada	Else-where			
	$	$	$	$	$
December 1925	49,915	18,772	18,910	137,858	226,455
" 1926	44,528	27,962	26,910	131,195	230,595
" 1927	48,061	28,458	21,245	130,733	228,497
" 1928	46,908	30,115	20,631	93,317	190,971
" 1929	46,852	26,442	14,631	62,995	150,920
" 1930	47,403	36,636	13,631	96,212	193,882
" 1931	45,961	19,856	10,682	66,960	143,459
" 1932	37,976	15,287	11,082	73,044	137,389

Tourist Expenditures

8. Expenditures of tourists, as was to be expected, were lower in 1932. Receipts were $212 against $251 million in 1931 and payments $57 million against $76 million. Nevertheless, a favourable balance of $150 million was achieved. This constituted the largest credit balance in our international accounts.

Interest Payments and Receipts

9. By a wide margin, net interest payments constituted the most serious adverse item. Interest payments abroad amounted to $248 million against which there were receipts of $56 million, a difference of $192 million.

Other Invisible Items

10. Among other invisible items the chief net debits were: Freight $20 million, and exchange $14 million. The principal net credit was insurance which amounted to $7 million.

Summary

11. Freight, interest and exchange together accounted for $226 million out of $287 million net debits (including error and omission estimate) in Canadian international payments in 1932. Other invisible items made up the remaining $61 million. Commodities, gold and tourist traffic yielded net credits totalling $297 million out of $310 million. Other invisible items made up the balance of $13 million. Canada's exports (visible and invisible) exceeded her imports (visible and invisible) largely because of the necessity of meeting maturities abroad.

CANADIAN ESTIMATED BALANCE OF INTERNATIONAL PAYMENTS

1 9 3 2

(000's omitted)

	Exports Visible and Invisible	Imports Visible and Invisible
	$	$
1. Commodity Trade - Recorded merchandise exports and imports	502,801	452,614
Deductions for settlers' effects and other non-commercial imports	6,526	14,048
	496,275	438,566
Deduction for overvaluations		22,000
Corrected total of commodity trade	496,275	416,566
2. Exports and imports of gold coin and bullion	60,825	2,175
3. Correction for gold movements to convert to Canadian currency	7,919	-
4. Freight payments and receipts, n.o.p.	38,864	58,864
5. Tourist expenditures	212,448	57,403
6. Interest payments and receipts	56,000	248,000
7. Immigrant remittances	6,080	7,127
8. Government expenditures and receipts	8,850	10,379
9. Charitable and missionary contributions	500	1,000
10. Insurance transactions	24,000	17,000
11. Advertising transactions	2,000	3,500
12. Motion picture earnings	-	3,250
13. Capital of immigrants and emigrants	4,416	3,775
14. Earnings of Canadian residents employed in U.S.A. (net)	750	-
15. Exchange London and New York on interest and maturity payments and receipts	10,000	23,750
16. Known omissions such as direct magazine subscriptions, artists and entertainers receipts, radio programmes, etc.		4,000
17. Difference between debits and credits as above - capital movements		72,138
	928,927	928,927
18. Sale and purchase of securities, including repurchases, sinking funds, etc.	150,000	100,000
19. Maturities		75,000
20. Direct investments	2,000	
21. Net outflow of capital	23,000	
	175,000	175,000
22. Total debits and credits	1,080,927	1,031,789
23. Net errors and omissions		49,138
	1,080,927	1,080,927

CANADIAN ESTIMATED

	1926		1927	
	Exports Visible and Invisible	Imports Visible and Invisible	Exports Visible and Invisible	Imports Visible and Invisible
	$	$	$	$
1. Commodity Trade - Recorded merchandise exports and imports	1,283,939	1,008,342	1,238,782	1,087,118
Unrecorded imports of ships	-	24	-	1,860
	1,283,939	1,008,366	1,238,782	1,088,978
Deductions for settlers' effects and other non-commercial imports	-12,326	-21,774	-11,020	-22,504
	1,271,613	986,592	1,227,762	1,066,474
Deduction for overvaluation				
Corrected total of commodity trade	1,271,613	986,592	1,227,762	1,066,474
2. Exports and imports of gold coin and bullion	80,131	47,126	64,231	31,257
3. Correction for gold movement to convert to Canadian currency				
4. Freight payments and receipts n.o.p.	88,714	106,288	89,826	109,140
5. Tourist expenditures	201,167	98,747	238,477	108,750
6. Interest payments and receipts	55,452	223,639	64,885	235,052
7. Immigrant remittances	15,550	20,509	15,433	22,423
8. Government expenditures and receipts	11,948	10,863	11,850	11,751
9. Government receipts, reparations	1,757	-	6,791	-
10. Charitable and missionary contributions	814	1,878	873	1,766
11. Insurance transactions	10,835	23,827	19,194	29,486
12. Advertising transactions	3,143	4,500	4,482	4,800
13. Motion picture earnings	-	3,500	-	3,500
14. Capital of immigrants and emigrants	14,945	14,689	14,545	12,611
15. Earnings of Canadian residents employed in U.S.A. (net figure)	10,000	-	11,000	-
16. Exports and imports of electrical energy (1)	4,600	89	4,798	87
17. Exchange London and New York on interest and maturity payments and receipts	-	-	-	-
18. Known omissions such as direct magazine subscriptions, artists and entertainers receipts, radio programmes, etc.	-	-	-	-
19. Difference between all exports and imports (2)	-	228,422	-	137,050
TOTAL	1,770,669	1,770,669	1,774,147	1,774,147

(1) Included in Commodity Trade since 1928.

(2) This item represents net capital movements and errors and omissions.

LANCE OF INTERNATIONAL PAYMENTS, 1926-1932

(000's omitted)

1928		1929		1930		1931		1932	
Exports Visible and nvisible	Imports Visible and Invisible	Exports Visible and Invisible	Imports Visible and Invisible	Exports Visible and Invisible	Imports Visible and Invisible	Exports Visible and Invisible	Imports Visible and Invisible	Exports Visible and Invisible	Imports Visible and Invisible
$	$	$	$	$	$	$	$	$	$
,374,246	1,222,318	1,208,338	1,298,993	905,370	1,008,479	617,243	628,098	502,801	452,614
-	19,230	-	19,420	-	7,470	-	500	-	-
,374,246	1,241,548	1,208,338	1,318,413	905,370	1,015,949	617,243	628,598	502,801	452,614
-10,926	-21,395	-11,679	-24,614	-10,957	-23,814	-9,328	-16,751	-6,526	-14,048
,363,320	1,220,153	1,196,659	1,293,799	894,413	992,135	607,915	611,847	496,275	438,566
							5,000		22,000
,363,320	1,220,153	1,196,659	1,293,799	894,413	992,135	607,915	606,847	496,275	416,566
107,614	39,659	50,598	3,746	25,343	39,062	70,062	2,038	60,825	2,175
								7,919	-
88,266	115,433	85,541	130,855	68,815	100,908	49,670	76,528	38,864	58,864
275,230	107,522	309,379	121,645	279,238	113,292	250,776	76,452	212,448	57,403
80,966	246,916	87,886	258,907	88,220	272,586	70,722	252,076	56,000	248,000
14,421	23,195	14,036	23,385	14,000	23,000	10,051	13,110	6,080	7,127
11,819	11,030	11,750	11,300	11,750	10,379	11,750	10,960	8,850	10,379
4,688	-	4,325	-	4,000	-	1,295	-	-	-
1,373	1,800	900	1,800	900	1,800	900	1,800	500	1,000
35,761	28,790	31,990	24,418	29,483	22,138	27,000	20,000	24,000	17,000
3,858	5,000	4,000	5,280	4,000	6,000	3,000	5,000	2,000	3,500
-	3,750	-	3,750	-	3,750	-	3,750	-	3,250
14,783	11,178	14,117	11,496	11,083	9,424	5,173	3,820	4,416	3,775
13,725	-	13,725	-	3,696	-	1,857	-	750	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	5,000	10,000	23,750
-	-	-	-	-	-	-	5,000	-	4,000
-	201,398	65,475	-	159,533	-	-	27,790	-	72,138
,015,824	2,015,824	1,890,381	1,890,381	1,594,474	1,594,474	1,110,171	1,110,171	928,927	928,927

ESTIMATED BALANCE OF PAYMENTS BETWEEN CANADA AND GREAT BRITAIN

Limitations of This Estimate

1. An attempt has been made to compile a separate statement of international payments between Canada and Great Britain and Canada and the United States. Its limitations are admitted. If a general statement of international payments can only be considered an approximation, one confined to transactions between two countries must be subject to a wider margin of error. For a number of items, data are available only for total debits or credits and not by countries. In such cases, arbitrary guesses have sometimes to be made regarding the geographical division.

Means of Balancing Payments, Great Britain-Canada

2. In the case of Great Britain, however, the principal items are the commodity trade and interest receipts and payments, the figures for which are not subject to arbitrary estimation. In 1932, Canada had a favourable commodity trade balance with Britain amounting to approximately $103 million, but an unfavourable balance in interest payments of approximately $79 million. As all other items, exclusive of capital movements, nearly offset each other, a difference of $24 million favourable to Canada remained. This balance, however, was again offset by capital items, including debits of $50 million and credits of $24 million. Only a small balance of slightly over $1 million remained unaccounted for.

Complexity of Settlement Process

3. This near approach to balance should not be taken as conclusive. Our debits and credits with London would not be settled on the basis of our commercial transactions in goods and services with that country alone. London is the clearing centre for most Empire countries. Our debits and credits with India, Australia and Fiji, New Zealand, South Africa, etc., would probably mostly be settled through London. It is the clearing centre for many foreign transactions as well. So that in the end we might find that, although on the basis of our transactions confined to Canada and Great Britain alone the accounts were in balance, when all transactions settled through London were taken into consideration, we might be debtor to London or vice versa. The situation is still further complicated by the fact that London transactions mostly come through New York.

ESTIMATED BALANCE OF PAYMENTS
CANADA AND GREAT BRITAIN

(000's omitted)

	1931		1932	
	Exports Visible and Invisible	Imports Visible and Invisible	Exports Visible and Invisible	Imports Visible and Invisible
	$	$	$	$
1. Commodity Trade - Recorded merchandise exports and imports	172,461	109,470	179,094	93,508
Unrecorded import of ships		500		
	172,461	109,970	179,094	93,508
Deductions for settlers' effects and other non-commercial imports	2,822	1,339	2,115	1,297
Total of commodity trade .	169,639	108,631	176,979	92,211
Deduction for overvaluation		4,500		19,000
	169,639	104,131	176,979	73,211
2. Exports and imports of gold coin, bullion and subsidiary coin	1	18		15
3. Freight payments and receipts, n.o.p.	10,305	9,928	6,920	8,268
4. Tourist expenditures	9,900	12,708	8,900	12,500
5. Interest payments and receipts	3,706	92,236	3,000	82,000
6. Immigrant remittances	911	3,060	771	2,143
7. Government expenditures and receipts	5,350	4,445	3,150	4,493
8. Charitable and missionary contributions	100	-	100	-
9. Insurance transactions ...	10,000	4,100	9,000	3,500
10. Advertising transactions .	250	1,500	200	1,000
11. Motion picture earnings ..	-	150	-	250
12. Capital of immigrants and emigrants	384	2,233	166	2,648
13. Allowance for exchange on interest and maturity payments and receipts ..	4,500	-	8,000	-
14. Known omissions, such as direct magazine subscriptions, entertainers, etc.	-	400	-	250
15. Sale and purchase of securities including repurchases, sinking funds, etc.	-	-	24,000	30,000
16. Direct investments	-	-	300	-
17. Maturities	-	-	-	20,000
18. Difference between all debits and credits, including capital	24,633	-	-	1,208
	239,409	239,409	241,486	241,486

ESTIMATED BALANCE OF PAYMENTS BETWEEN CANADA AND THE UNITED STATES

1. During the twelve years prior to 1932, Canada's commodity trade balance with the United States was adverse, on the average, to the extent of $225 million per year. The important invisible items in the international account are tourist traffic, interest and freight. Heavy net interest and freight payments must be made to the United States, while Canada has a large balance in her favour from tourist traffic. As a matter of fact, during the last few years, tourist receipts have been sufficient to more than offset our payments for interest and freight. Other invisible items practically balanced. In some years, heavy shipments of gold, of which Canada is now producing about $60 million per year, have further reduced the adverse balance.

2. For many years until 1931, no difficulty was experienced in meeting our adverse balance. Expansion had been so great that capital movements were easily adequate to meet it. Indeed, in the period 1924 to 1928, Canadian prosperity was such that we became during those years, a capital exporting country. In 1929 and 1930 we resumed the role of capital importers.

3. In 1931 and 1932 the meeting of our obligations to the United States was much more difficult because the flotation of capital issues in New York ceased in the latter part of 1931. Details of the international account for 1931 and 1932 are set out in the accompanying table, which shows how balance was achieved. In the latter year, tourist net receipts practically offset net interest, freight and exchange payments. Gold shipments in Canadian funds amounted to $67 million. Other invisible items were adverse to the extent of approximately $10 million. The commodity adverse balance which had declined to $107 million in 1931, less than one-half the average for twelve years, was still further reduced to $85 million. Capital items included debits of $55 million for maturities, $65 million for other capital debits and $123 million credit for sales.

Summary

4. Canadian debits to the United States in 1932 to be brought into balance required (a) greatly reduced imports, thus lowering the unfavourable balance of trade; (b) a credit of over $160 million in tourist traffic; (c) net gold shipments aggregating $65 million; (d) United States investments in Canada in securities and direct items of nearly $125 million.

ESTIMATED BALANCE OF PAYMENTS
CANADA AND THE UNITED STATES

(000's omitted)

	1931		1932	
	Exports Visible and Invisible	Imports Visible and Invisible	Exports Visible and Invisible	Imports Visible and Invisible
	$	$	$	$
1. Commodity Trade - Recorded merchandise exports and imports	266,682	393,776	169,894	263,549
Deductions for settlers' effects and other non-commercial imports	5,212	14,817	3,371	12,338
Real total of commodity trade	261,470	378,959	166,523	251,211
2. Exports and imports of gold coin, bullion and subsidiary coin	69,557	1,945	59,240	2,135
3. Correction for gold movement to convert to Canadian currency	-	-	7,709	-
4. Freight payments and receipts n.o.p.	32,004	55,982	23,711	44,008
5. Tourist expenditures	238,758	56,902	201,905	38,148
6. Interest payments and receipts	40,505	153,018	35,000	160,000
7. Immigrant remittances	8,233	7,849	4,693	3,478
8. Government expenditures and receipts	4,900	3,625	4,300	3,871
9. Charitable and missionary contributions	800	-	400	-
10. Insurance transactions	12,000	15,750	10,500	13,000
11. Advertising transactions	2,700	3,500	1,750	2,500
12. Motion picture earnings	-	3,600	-	3,000
13. Capital of immigrants and emigrants	4,673	1,481	4,161	1,013
14. Earnings of Canadian residents employed in U.S.A. (net figures)	1,857	-	750	-
15. Allowance for exchange on U.S.A. funds	-	5,000	2,000	23,750
16. Allowance for known omissions such as direct magazine subscriptions, entertainers, radio, etc.	-	4,500	-	3,700
17. Sale & purchase of securities.	-	-	123,000	65,000
18. Maturities	-	-	-	55,000
19. Direct investments	-	-	1,600	-
20. Difference between all debits and credits, including capital	14,654	-	22,572	-
	692,111	692,111	669,814	669,814

ESTIMATED BALANCE OF PAYMENTS
CANADA AND OTHER COUNTRIES

(000's omitted)

	1 9 3 2	
	Exports Visible and Invisible	Imports Visible and Invisible
	$	$
1. Commodity Trade - Recorded merchandise exports and imports	153,813	95,557
Deductions for settlers' effects and other non-commercial imports	1,040	413
	152,773	95,144
Deduct for overvaluation		3,000
Corrected total of commodity trade	152,773	92,144
2. Exports and imports of gold coin, bullion and subsidiary coin	1,585	25
3. Correction for gold movement to convert to Canadian currency	210	-
4. Freight payments and receipts, n.o.p.	8,233	6,588
5. Tourist expenditures	1,643	6,755
6. Interest payments and receipts	18,000	6,000
7. Immigrant remittances	616	1,506
8. Government expenditures and receipts	1,400	2,015
9. Charitable and missionary contributions	-	1,000
10. Insurance transactions	4,500	500
11. Advertising transactions	50	-
12. Capital of immigrants and emigrants	89	113
13. Allowance for known omissions such as direct magazine subscriptions, entertainers, radio, etc.	-	50
14. Sale and purchase of securities	3,000	5,000
15. Direct investments	100	-
16. Difference between all debits and credits, including capital	-	70,503
	192,199	192,199

CANADA

DEPARTMENT OF TRADE AND COMMERCE

DOMINION BUREAU OF STATISTICS

INTERNAL TRADE BRANCH

ESTIMATED BALANCE

of

INTERNATIONAL PAYMENTS

for

CANADA

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DEPARTMENT OF TRADE AND COMMERCE
DOMINION BUREAU OF STATISTICS - CANADA
INTERNAL TRADE BRANCH

(Issued January 13th, 1933)

Dominion Statistician: R.H. Coats, B.A., F.S.S. (Hon.), F.R.S.C.
Chief, Internal Trade Branch: Herbert Marshall, B.A., F.S.S.

ESTIMATED BALANCE OF INTERNATIONAL PAYMENTS FOR CANADA

PRELIMINARY STATEMENT FOR 1933

A preliminary statement of the Canadian Balance of International Payments issued by the Dominion Bureau of Statistics sets forth the debits and credits of the Dominion International accounts for the year 1933. While a good deal of information is not yet available upon which to base a final statement, the preliminary estimate, though subject to correction at a later date, is sufficiently accurate to bring out the salient features of last year's transactions.

Outstanding among the data presented is the fact that in 1933 the task of amassing sufficient international credits to meet international debits became easier. In 1933 the net flow of capital was inward whereas in 1931 and 1932 it was outward. How this easier situation was achieved is seen by reference to the individual items which constitute the balance statement.

Commodity and Bullion Trade

Commodity trade had a favourable balance amounting to $145 million as compared with one of $80 million in 1932. Net gold exports in terms of Canadian funds were $92 million as compared with $69 million in 1932. This large increase was due, of course, to the heavy premium prevailing on gold.

Tourist Trade

Tourist expenditures were favourable on balance to the extent of $60 million which compares with $155 million in 1932. This drastic decline was due not only to a falling off in the number of tourists but also to a lower average expenditure per tourist.

Interest Receipts and Payments

Among the items showing net debits, interest and dividend receipts and payments is the most important. It is estimated that the net payment amounted to $225 million. This compares with $192 million in 1932, the increase being accounted for by improved sources of information on interest and dividend payments and also because of back remittances made by Branch and Subsidiary plants after the disappearance of the discount on the Canadian dollar.

Exchange

The recovery of the Canadian dollar on the New York market rendered the bill for exchange payments in 1933 very much less than in 1932. It is estimated that there was a net debit of $9 million on this item as compared with one of $14 million in 1932. The rise in sterling quotations at Montreal partially offset the gain in Canadian-New York exchange. While the better exchange situation was a favourable influence on the balance of payments, it should be noted that the rise in exchange was in a large measure an effect of the more favourable situation regarding international payments.

Miscellaneous Debits and Credits

Freight payments were adverse to the extent of $15 million; government expenditures by $3 million; advertising by $1½ million; and motion picture earnings by $4 million. The flow of insurance payments showed a net credit of $4 million.

Capital Items

During the year 1933 it is estimated that the sale and purchase of securities between Canada and outside countries reached the large total of $600 million. There was heavy buying abroad of Canadian mining stocks and Canadian government bonds, but Canadian purchase of their own and foreign securities from other countries reached $250 million. In addition to the purchase of this large sum in securities by Canadians, our governments and corporations retired $40 million in bonds owned abroad which had reached maturity. Direct investments are estimated at $1½ million. On balance we were importers of capital to the extent of $61½ million. This import, comparing with capital exports in the two preceding years, was another important factor in easing the situation with regard to the accumulation of credits to meet our international debits.

Summary

Credit balances of $146 million for commodities, $92 million for gold, $60 million for tourist trade, amounting in all to $298 million, were more than sufficient to meet net debits of $225 million for interest, $15 million for freight, and $9 million for exchange, totalling $249 million. Minor invisible items showed a net debit of $8 million. The total net credit, exclusive of capital, was approximately $40 million which, plus a net credit of approximately $62 million, representing capital inflow, makes a total of $102 million for which no debit items appear. An error and omission estimate is therefore added to bring the two sides of the international accounts into balance.

ESTIMATED BALANCE OF INTERNATIONAL PAYMENTS FOR CANADA

PRELIMINARY STATEMENT FOR 1933

(000's omitted)

		Exports Visible and Invisible $	Imports Visible and Invisible $	Net Debit (-) or Credit (+)
1.	Commodity Trade (Corrected by deduction of non-commercial items, overvaluations, etc.)	535,000	389,250	+ 146.0
2.	Exports and imports of gold coin and bullion	66,000	850	+ 65.1
3.	Correction for gold movements to convert to Canadian currency	27,000	350	+ 26.6
4.	Freight payments and receipts, n.o.p..	40,000	55,000	- 15.0
5.	Tourist expenditures	110,000	50,000	+ 60.0
6.	Interest payments and receipts	50,000	275,000	- 225.0
7.	Immigrant remittances	5,000	6,000	- 1.0
8.	Government expenditures and receipts	6,500	9,500	- 3.0
9.	Charitable and missionary contributions	1,000	1,000	-
10.	Insurance transactions	15,000	11,000	+ 4.0
11.	Advertising transactions	1,500	3,000	- 1.5
12.	Motion picture earnings	-	4,000	- 4.0
13.	Capital of immigrants and emigrants	4,000	3,250	+ .75
14.	Earnings of Canadian residents employed in U.S.A.	700	-	+ .7
15.	Exchange London and New York on interest and maturity payments and receipts	3,000	12,000	- 9.0
16.	Miscellaneous items such as direct magazine subscriptions, artists and entertainers receipts, radio programmes, etc.	-	4,000	- 4.0
17.	Difference between debits and credits as above	-	40,500	
		864,700	864,700	
18.	Sale and purchase of securities ...	350,000	250,000	+ 100.0
19.	Maturities	-	40,000	- 40.0
20.	Direct investments	1,500	-	+ 1.5
21.	Net inflow of capital	-	61,500	
		351,500	351,500	
22.	Total debits and credits	1,216,200	1,114,200	
23.	Net errors and omissions	-	102,000	
		1,216,200	1,216,200	

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hief, Internal Trade Branch: Herbert Marshall, B.A., F.S.S.

ESTIMATED BALANCE OF INTERNATIONAL PAYMENTS FOR CANADA
PRELIMINARY STATEMENT FOR 1934

A preliminary statement of the Canadian Balance of International ayments issued by the Dominion Bureau of Statistics sets forth the debits nd credits of the Dominion International accounts for the year 1934. hile complete and final information will not be available until later in he year, sufficient data are available to permit the presentation of the alient features of last year's transactions.

Commodity and Bullion Trade

Commodity trade, adjusted for the purpose of the Balance of Pay- ents statement, shows a favourable balance of $145 million. Net gold ex- orts in terms of Canadian currency reached a total of over $94 million.

Tourist Trade

A preliminary estimate of tourist expenditures shows a favour- ble balance of $84 million which compares with $60 million in 1933.

Interest Payments and Receipts

Interest payments and receipts showed the usual heavy adverse alance. It is estimated at $230 million as compared with $225 million in 933.

Miscellaneous Debits and Credits

Among these, freight receipts and payments, n.o.p., is the most mportant. An adverse balance of $21 million is shown. Other debit alances were, immigrant remittances, $1½ million; government receipts and xpenditures, $1¼ million; motion picture earnings, $2¾ million; and undry items, $4½ million. Remaining credit balances included, charitable nd missionary contributions, $4/5 million; insurance transactions, $4 illion; advertising, $½ million; immigrant and emigrant capital, $¾ illion; and earning of Canadian residents abroad, $½ million.

Capital Items

It is estimated that the sale and purchase of securities between anada and outside countries attained a figure of $650 million. Other ountries purchased Canadian securities to the extent of $350 million (in- luding $54,730,346 new issues floated in Great Britain) but Canadians urchased securities abroad (including repurchase of Canadian securities) o the extent of $300 million. In addition to these considerable transac- ions, Canadian corporations and governments retired $75 million of bonds hich were held abroad and which had reached maturity. Direct investments y outside countries in Canada are estimated at $5 million. On balance, herefore, Canada exported capital to the amount of some $20 million.

Summary

It will be noted that the debit for interest and dividend pay- ents was $230 million. Maturity payments were $75 million. These two tems together amount to $305 million. Commodity, tourist and gold credit alances totalled $323 million and these, less $18 million, were required to meet the interest, dividends and maturities. The balance of $18 million just about offset a freight deficit of $21 million. Remaining debits amounting to $10 million plus the $48¾ million debit for untraced items (errors and omissions) were balanced by sundry credits of $6½ million plus apital credits on the sale and purchase of securities and direct invest- ents.

ESTIMATED BALANCE OF INTERNATIONAL PAYMENTS FOR CANADA

PRELIMINARY STATEMENT FOR 1934

(000's omitted)

	Exports Visible and Invisible $	Imports Visible and Invisible $	Net Debit (-) or Credit (+)
1. Commodity Trade	645,000	500,000	+ 145,000
2. Exports of gold coin and bullion .	95,000	800	+ 94,200
3. Freight payments and receipts, n.o.p.	47,000	68,000	- 21,000
4. Tourist expenditures	138,000	54,000	+ 84,000
5. Interest payments and receipts ...	60,000	290,000	- 230,000
6. Immigrant remittances	6,000	7,500	- 1,500
7. Government expenditures and receipts	8,000	9,250	- 1,250
8. Charitable and missionary contributions	2,000	1,200	+ 800
9. Insurance transactions	16,000	12,000	+ 4,000
10. Advertising transactions	2,000	1,500	+ 500
11. Motion picture earnings	-	2,750	- 2,750
12. Capital of immigrants and emigrants	4,000	3,250	+ 750
13. Earnings of Canadian residents employed in U.S.A.	500	-	+ 500
14. Sundry items (direct magazine subscriptions, entertainers' receipts, radio programs, etc.).	-	4,500	- 4,500
15. Balancing items --			
(a) Net capital export (see capital statement)	-	20,000	
(b) Net errors and omissions	-	48,750	
	1,023,500	1,023,500	+ 68,750[x]

Capital Movement
(000's omitted)

	cr.	dr.	
1. Sale and purchase of securities ..	350,000	300,000	+ 50,000
2. Maturities	-	75,000	- 75,000
3. Direct investments	5,000	-	+ 5,000
4. Balancing item -- Net outflow of capital funds ...	20,000	-	
	375,000	375,000	- 20,000

[x] This net credit of $68,750,000 is accounted for by net capital export amounting to $20,000,000. The balance, $48,750,000, cannot presently be traced and is attributed to errors and omissions.

Lacking 1934-36

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ominion Statistician: R. H. Coats, LL.D., F.R.S.C., F.S.S. (Hon.)
ief, Internal Trade Branch: H. Marshall, B.A., F.S.S.

ESTIMATED BALANCE OF INTERNATIONAL PAYMENTS FOR CANADA

Preliminary Statement for 1936

The preliminary statement of the Canadian Balance of Inter-ational Payments issued by the Dominion Bureau of Statistics presents rovisional estimates of the current items of goods, services and gold and he principal capital items in Canada's international accounts for the ear 1936. While complete and final information will not be available ntil later in the year, sufficient data are now available to permit the resentation of the salient features of last year's transactions.

In interpreting the statement, the conditions which would accomp-ny a theoretically perfect statement must be borne in mind. If the stimates of the current and capital items were absolutely correct and all nclusive, the balancing item (No. 16) of the current account and the alancing item of the capital account (No. 5) would be equal. The ifference between these two amounts in the accompanying statement ($90.7 illion) represents either errors in the computations or the omission of ransactions which could not be traced at the time the tables were prepared.

A large credit balance arising from the exceptionally large xcess of commodity exports was the most striking feature of Canada's alance of international payments for 1936. In addition to this expansion n the commodity trade, the two other principal sources of credit balances, he trade in gold and the international tourist traffic, also resulted in arger net receipts. Although the dividends paid to investors outside of anada were larger, the net payments made for interest and dividends and or the miscellaneous transactions, such as freight, government expendi-ures, etc., were more than offset by the large surplus credits already eferred to. Consequently, on current account there was the impressive alance of $318.2 million remaining after all Canada's current payments hich have been estimated in this statement for the year were made. This arge surplus of credits, therefore, was available for the transfer of apital funds from Canada.

Chief characteristics of this movement of capital during the ear are revealed in the capital account which points to a net outflow of apital funds from Canada of $227.5 million. The purpose of this outward apital movement was for the retirement of Canadian securities held by nvestors abroad, the net retirements for the year being $145 million, as ell as the large net payments connected with the operations of British nd foreign branch and subsidiary plants in Canada and Canadian branch lants abroad, etc.

Summary of Balance of Payments Transactions, 1936
(In millions of dollars)

	Net Credit (+) or Debit (-)
Commodity trade	+326.9
Gold coin and bullion	+125.8
Tourist trade	+165.0
Interest and dividend receipts and payments.	-250.0
Miscellaneous transactions	- 49.5
Net credits on current account	+318.2
Net debits on capital account	-227.5
Errors or omissions	+ 90.7

Of the $318.2 million surplus credits revealed by the current ccount, there have been $227.5 million accounted for in the capital ccount by the net outward transfer of capital funds from Canada.

The net difference between these amounts ($90.7 million) is made p of errors or omissions in the estimates.

Current Account of Goods, Services and Gold

Commodity Trade.--Commodity trade figures exclude exports of non-monetary gold bullion but include exports of gold-bearing quartz. They have also been adjusted for the purpose of the balance of payments statement by excluding certain non-commercial items. The resulting credit balance is $326.9 million.

Gold Coin and Bullion.--This item includes exports of non-monetary gold bullion and earmarked gold. The net credits resulting from gold transactions were $125.8 million.

Tourist Expenditures.--The credit balance shown by this preliminary estimate was $165 million. Final calculations of these expenditures may differ substantially from this estimate.

Interest and Dividend Receipts and Payments.--The debit balance produced by these transactions was $250 million. This estimate of interest and dividend receipts by Canada is the result of a downward revision of amounts previously shown for recent years.

Miscellaneous Transactions.--Miscellaneous transactions produced a net debit balance of $49.5 million. This amount represents the excess of the debit balances arising from freight receipts and payments, immigrant remittances, government expenditures and receipts, charitable and missionary contributions, insurance transactions, motion picture earnings, capital of immigrants and emigrants, and miscellaneous payments, over the credit balances from advertising transactions, and the net earnings of Canadian residents employed in the United States.

Capital Account

During 1936 the international trade in outstanding securities between Canada and other countries totalled $818 million. This total trade was divided almost equally between sales and purchases. The sales of securities to investors in other countries were $410.5 million, while purchases of securities abroad by residents of Canada were $408.0 million. Most of these security transactions were between Canada and the United States, although transactions with Great Britain were a substantial part of the trade. Canadian purchases from the United States exceeded sales, whereas in the trade with Great Britain purchases by Canadians were exceeded by sales. Although most of these dealings were in Canadian securities, the volume of transactions in other securities was large, particularly in United States common and preference stocks.

In addition to this international trade in outstanding securities, there was the important retirement of $255 million Canadian bonds and debentures held abroad. Part of these were refinanced at prevailing low interest rates by the receipt of $110 million from the sale of new issues of Canadian bonds and debentures mostly in the United States. Besides these, there were sales of new issues of securities in the United States for the purpose of developing the operations of Canadian companies in the United States which have not been included in these totals.

These retirements effected a reduction of the indebtedness, principally to the United States, of some Canadian governments and corporations. Refinancing of part of the retired issues by securities at lower interest rates will also reduce future annual service payments on Canada's foreign-owned bonded debt. This reduction in future payments of interest abroad constitutes a most important long-run consequence of the capital operations during 1936.

Some retirements of foreign issues held by Canadians and the sale of certain new issues of foreign securities to Canadians during the year have not been included in the statement. These transactions, however, were not large.

The capital item of $85.0 million described as "other known capital movements" is a net figure showing the approximate payments from Canada arising principally from the operations of the numerous British and foreign branch plants in Canada and from the operations of Canadian firms outside of Canada. The net result of the international business of Canadian trust companies is also included under this item, as well as some known short-term movements of funds which have not been otherwise provided for in the statement. Certain undifferentiated items of current payments account for a part of this net outward movement.

ESTIMATED BALANCE OF INTERNATIONAL PAYMENTS FOR CANADA

Preliminary Statement for 1936

Current Account of Goods, Services and Gold

(In millions of dollars)

	Exports Visible and Invisible	Imports Visible and Invisible	Net Debit (-) or Credit (+)
	$	$	$
1. Commodity trade (adjusted)	953.9	627.0	+326.9
2. Exports and imports of gold coin and bullion (1)	126.8	1.0	+125.8
3. Freight receipts and payments, n.o.p. ..	50.0	68.0	- 18.0
4. Tourist expenditures (2)	250.0	85.0	+165.0
5. Interest and dividend receipts and payments	80.0	330.0	-250.0
6. Immigrant remittances	7.0	9.0	- 2.0
7. Government expenditures and receipts ...	6.5	12.0	- 5.5
8. Charitable and missionary contributions.	1.0	1.5	- 0.5
9. Insurance transactions (net figure)	-	16.0	- 16.0
.0. Advertising transactions	2.3	1.8	+ 0.5
.1. Motion picture earnings	-	3.0	- 3.0
.2. Capital of immigrants and emigrants	1.9	3.5	- 1.6
.3. Earnings of Canadian residents employed in the United States (net figure)	1.6	-	+ 1.6
.4. Miscellaneous payments, including direct magazine subscriptions, entertainers' earnings, etc. (net figure)	-	5.0	- 5.0
.5. Total credits and debits shown above ...	1,481.0	1,162.8	+318.2
.6. Difference between credits and debits as above (This difference is made up of capital movements and errors and omissions)	-	318.2	-
	1,481.0	1,481.0	-

Capital Account

(In millions of dollars)

	Cr.	Dr.	
	$	$	$
1. Sales and purchases of securities	410.5	408.0	+ 2.5
2. Retirements	-	255.0	-255.0
3. New series (including refinancing)	110.0	-	+110.0
4. Other known capital movements (net) (3).	-	85.0	- 85.0
5. Balancing item -- Net outflow of capital funds	227.5	-	-
	748.0	748.0	-

N.B. If the estimates of the current and capital items above were absolutely correct and all inclusive, the balancing item of the current account (No. 16) and the balancing item of the capital account (No. 5) would be equal. The difference between these two amounts in the above statement ($90.7 million) represents either errors in the computations or the omission of transactions which could not be traced at the time the tables were prepared.

(1) Includes earmarked gold. Gold-bearing quartz is included in commodity trade.
(2) Provisional estimate. Final figures may differ substantially.
(3) Net movement of funds resulting from the operations of British and foreign branch plants in Canada and the branches of Canadian firms abroad, including the transactions of trust companies and known short-term movements of funds, n.o.p.

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ominion Statistician: R. H. Coats, LL.D., F.R.S.C., F.S.S. (Hon.)
hief, Internal Trade Branch: H. Marshall, B. A., F. S. S.

ESTIMATED BALANCE OF INTERNATIONAL PAYMENTS FOR CANADA, BRITISH AND FOREIGN INVESTMENTS IN CANADA, AND CANADIAN INVESTMENTS ABROAD.

Preliminary Statements for 1937

The preliminary statement of the Canadian Balance of International Payments ssued by the Dominion Bureau of Statistics presents provisional estimates of the urrent items of goods, services and gold and the principal capital items in Canada's nternational accounts for the year 1937. While complete and final information will ot be available until later in the year, sufficient data are now available to permit he presentation of the salient features of last year's transactions.

A large credit balance continued to characterize Canada's current account in 937. In other words, the credits received by Canada from the sale of goods, gold nd services to other countries continued to exceed the payments made in connection ith imports of merchandise and the remittance of interest and dividends to investors esiding outside of Canada as well as other payments for miscellaneous services reeived. There was available, therefore, this surplus of credits in the current account or the export of capital funds from Canada.

The principal aspects of the movement of capital during the year are shown n the capital account which traces a net outflow of capital from Canada of over 200 million.

Summary of Balance of Payments Transactions, 1937

(In millions of dollars)

	Net Credit (+) or Debit (-)
Commodity trade	+212
Gold	+145
Tourist trade	+170
Interest and dividend receipts and payments	-247
Miscellaneous current transactions	-63
Net credits on current account	+217
Net debits on capital account (Outflow of capital)	-208
Errors or omissions	+9

Of the $217 million surplus credits revealed by the current account, there ave been $208 million accounted for in the capital account by the net outward ransfer of capital funds from Canada.

The net difference between these amounts ($9 million) is made up of navoidable errors in the computations or the omission of transactions which could ot be traced at the time the tables were prepared.

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Current Account of Goods, Services and Gold

The balance of credits from the export of merchandise, although much reduced from the extraordinarily large balance in 1936, nevertheless, was very considerable compared with the balances of merchandise trade usually experienced. This reduction was partly offset by larger receipts from the sale of gold and by increased revenue from the international tourist trade. After allowing for greater payments for the transportation of imported merchandise and for increased dividend disbursements by Canadian companies to shareholders residing outside of Canada and for other current payments there remained a balance of credits in the current account amounting to $217 million.

Commodity Trade--Commodity trade figures exclude exports of non-monetary gold bullion and gold-bearing quartz, which are included with other gold in the gold item. Other adjustments have also been made for the balance of payments statement such as the exclusion of certain non-commercial items as well as merchandise imported by returning Canadian tourists, etc. The resulting credit balance is $212 million.

Gold Exports and Imports--Earmarked gold is included in this item as well as gold bearing quartz, non-monetary gold bullion and other gold coin and bullion. The net credits resulting from gold transactions were $145 million.

Tourist Expenditures--The credit balance shown by this preliminary estimate based on incomplete data is $170 million.

Interest and Dividend Receipts and Payments--The debit balance produced by these transactions was $247 million.

Miscellaneous Transactions--Miscellaneous transactions produced a net debit balance of $63 million. This amount represents the excess of the debit balances arising from freight receipts and payments, immigrants' remittances, the expenditures of governments, charitable and missionary contributions, advertising transactions, motion picture remittances, capital of immigrants and emigrants and miscellaneous payments for other services, over the small credit balance from the earnings of international commuters.

Capital Account

Although during 1937 the trade in outstanding securities between Canada and other countries totalled more than $1 billion, the net movement of capital resulting from these transactions was negligible. This is of particular interest in view of the development of unusual disturbances in the security markets during the year.

The small net movement of capital connected with this international trade in securities was partly the consequence of offsetting capital movements between Canada and the United States on the one hand and Canada and the United Kingdom and other countries on the other. The movement of capital from Canada to the United States resulting from the trade in outstanding securities was almost entirely offset by the movements from the United Kingdom and other countries to Canada. The volume of Canadian repurchases of Canadian common and preference stocks from the United States was substantial while the United Kingdom and other countries on balance bought Canadian stocks.

Besides this trade in securities there was the retirement of $170 million of Canadian bonds which were held abroad, mostly in the United States. Many of these issues matured during the year but a considerable number of corporation issues were called for redemption, especially in the earlier part of the year. The decline in retirements in 1937 compared with the much heavier volumes of issues retired in 1935 and 1936 represents the most important change in Canada's international capital transactions during the year. The largest part of the new issues sold abroad were connected with refinancing operations, only a small part representing the borrowing of new capital.

The item insurance transactions represents a provisional estimate of the net international remittances connected with the operations of insurance companies.

The capital item "other known capital movements" is also a preliminary estimate, representing the movement of capital arising principally from the operations of international "branch plants", British and foreign branches in Canada and Canadian branches abroad. Also included are net amounts representing the results of the international transactions of Canadian trust companies and other known short-term movements of funds which have not been provided for otherwise. Various small items of current transactions which are difficult to segregate remain in this item and in the insurance item.

Preliminary Estimates of British and Foreign Capital Invested in Canada and Canadian Capital Invested Abroad, as at December 31, 1937.

Because of their connection with the balance of payments, provisional estimates of British and Foreign Capital Invested in Canada and Canadian Capital Invested Abroad as at the end of 1937 are also shown in this bulletin. Too close a relationship between changes in the value of these international investments and the movement of capital revealed in the capital account of the balance of payments statement should not, however, be drawn. Many factors influencing the value of international investments do not give rise to actual movements of capital between Canada and other countries and consequently these changes do not appear in the statement of annual capital movements.

The preliminary estimate of the value of British and Foreign Capital Investments in Canada at the end of 1937 at $6,848 million shows a slight increase over the value of these investments at the end of 1936. The increase is distributed among the investments of the United States and other countries and is partly the result of increased holdings of the securities of Canadian governments by United States investors and partly the result of general increases in the values of the investments in Canadian companies and business enterprises owned by non-residents of Canada.

The preliminary estimates of Canadian Investments Abroad, as at the end of 1937, also show increases in value compared with 1936, principally in investments in the United States.

Estimated Balance of International Payments for Canada
Preliminary Statement for 1937

(In millions of dollars)

	Credits Exports Visible and Invisible	Debits Imports Visible and Invisible	Net Credits (+) or Debits (-)
Current Account of Goods, Services and Gold			
1. Commodity trade (adjusted)	1,010	798	+212
2. Gold exports[1] and imports	145	-	+145
3. Freight receipts and payments n.o.p.....	90	116	-26
4. Tourist expenditures[2].....	290	120	+170
5. Interest and dividend receipts and payments..	78	325	-247
6. Immigrants' remittances.....	8	20	-12
7. Government expenditures and receipts.....	7	12	-5
8. Charitable and missionary contributions.....	1	2	-1
9. Advertising transactions.....	2	2	-
10. Motion picture remittances	-	4	-4
11. Capital of immigrants and emigrants.....	2	4	-2
12. Earnings of Canadian residents employed in U.S.A. and U.S. residents employed in Canada.	4	2	+2
13. Net payments for entertainment services, royalties, etc. not included above.....	-	15	-15
14. Total credits and debits as above	1,637	1,420	+217
15. Difference between debits and credits above	-	217	
	1,637	1,637	
Capital Account			
1. New issues of Canadian securities sold abroad.(including refinancing).....	92	-	+92
2. Retirements of Canadian securities held abroad.....	-	170	-170
3. Sales and purchases of outstanding securities	508	512	-4
4. Insurance transactions n.o.p. (Net)	-	28	-28
5. Other known capital movements[3] (Net)	-	98	-98
6. Total credits and debits as above	600	808	-208
7. Direct estimate of net outflow of capital	208	-	
	808	808	
Residual item[4], Item 15 of current account minus item 7 of capital account	9		

(1) Includes earmarked gold.

(2) Provisional estimate based on incomplete data.

(3) Net movement of funds resulting from the operations of British and foreign branch plants in Canada and the branches of Canadian firms abroad, including the transactions of trust companies and known short term movements of funds, n.o.p.

(4) This item represents either errors in the computations or the omission of transactions which could not be traced at the time the tables were prepared.

Preliminary Estimate

Estimated British and Foreign Capital Invested in Canada, Classified According to Main Types as at December 31, 1937.
(In millions of dollars)

	Total	United Kingdom	United States	Other Countries
GOVERNMENT SECURITIES--				
Dominion.....	862	318	544	-
Provincial.....	494	61	430	3
Municipal.....	340	137	203	-
	1,696	516	1,177	3
PUBLIC UTILITIES--				
Railways.....	1,626	1,060	546	20
Other - Traction, Light, Heat, Power, Telephone, etc.	764	185	570	9
MANUFACTURING--				
Wood and paper products.....	465	98	365	2
Metal industries.....	425	80	340	5
All other manufacturing industries	499	205	285	9
Mining--	363	93	260	10
Merchandising and Service--	228	75	149	4
Insurance--	211	87	122	2
Finance and Mortgage Corporations--	296	162	97	37
Miscellaneous (agricultural lands, summer homes, prospecting, assets administered for persons or corporations residing outside Canada etc.)	275	160	85	30
GRAND TOTAL	6,848	2,721	3,996	131

Estimated Canadian Investments Abroad as at December 31, 1937.
(In millions of dollars)

	Total	United Kingdom	United States	Other Countries
. Canadian Government Credits	30.5	-	-	30.5
. Estimated Net Assets of Canadian Banks Outside of Canada	114.0	15.0	90.0	9.0
. Foreign Securities Held in Canada by Canadian Insurance Companies	170.0	12.0	131.0	27.0
. Direct Investments	474.0	16.0	285.0	173.0
. Miscellaneous Investments	906.0	10.0	511.0	385.0
GRAND TOTAL	1,694.5	53.0	1,017.0	624.5

. B. In addition to the above investments abroad there are the assets abroad of Canadian insurance companies. In connection with these, however, it should be remembered that the liabilities to policyholders abroad exceed the value of the assets held abroad.

Estimated Net Assets(x) of Canadian Insurance Companies Held Abroad as at December 31, 1937.
(In millions of dollars)

United Kingdom.....	80
United States.....	420
Other Countries.....	110
Total, All Countries	610

(x) Assets minus liability other than reserve (i.e. net liability outside of Canada under assurance, annuity and supplementary contracts in force for payments not due, dependent on life, disability or any other contingency or a term certain)

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DEPARTMENT OF TRADE AND COMMERCE
DOMINION BUREAU OF STATISTICS - CANADA
INTERNAL TRADE BRANCH

Dominion Statistician:	R. H. Coats, LL.D., F.R.S.C., F.S.S. (Hon.)
Chief, Internal Trade Branch:	H. Marshall, B.A., F.S.S.
Statistician:	C. D. Blyth, B.A.

THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

1937

The accompanying statement of the Canadian balance of international payments in 1937 supersedes the preliminary statement issued earlier in the year. While it is possible that subsequent research may give rise to further revision of some items, the statement is, for the most part, not likely to be altered.

Summary

The statement of the Canadian balance of payments for 1937 reveals many of the characteristics displayed in the last few years. A substantial balance of credits in the current account of goods, gold and services, reflecting a net outward movement of capital, continued to be the most outstanding feature. In other words, Canada's external income from the sale abroad of merchandise and gold and from the services provided in the Dominion for tourists from other countries was more than sufficient to cover current external payments, such as interest and dividends to investors in other countries. The resulting excess of income over payments produced a surplus of external credits that made it possible for Canada to make outward payments on capital account for such purposes as the retirement of Canadian bonds and debentures owned in other countries.

The principal developments affecting the balance of payments in 1937 are best observed by comparing changes in the larger groups of transactions during the past few years. A summary of the more important changes in Canada's international accounts during the five year period between 1933 and 1937 is shown in the table on the following page. The beginning of this period, 1933, marks the year when a credit balance reappeared in Canada's current account and the development of the credit balances and the accompanying export of capital are shown in the succeeding years. Each of the three major sources of external income, the merchandise trade, gold, and the tourist trade produced larger net credits annually until 1936. But, in 1937, while net credits from gold and from the tourist trade continued to expand, the balance of merchandise exports contracted sharply but it was still at a higher level than in any of the years shown before 1936. Although net payments of interest and dividends have increased in recent years with the rise in corporation incomes, in no year has the growth in net payments for interest, dividends, freight and other services been greater than the expansion in net income from the first three items mentioned.

The most flexible item of the current account during this period has been the merchandise trade and it was the sharp contraction in this item that constituted the most important change in the current account of the Canadian balance of payments in 1937. The continued growth in external income from the sale of gold and from the tourist trade was sufficient, however, to more than offset the rise in debits from interest and dividend payments, freight, and miscellaneous services. The decline in the credit balance was, therefore, less than the sharp drop in credits from the merchandise

trade and the net outflow of capital indicated by the credit balance in the current account, $218.2 million, was still of very large proportions, being exceeded only, in the period since 1926, by the credit balance of $308.5 million in 1936.

Movements of capital between Canada and other countries also followed very definite tendencies between 1933 and 1937 as may be observed from the capital account shown in the summary table. The net outward movements of capital from Canada, during these five years, have been principally made up of two groups, those in connection with the retirement of Canadian securities owned abroad and those connected with the international operations of companies, particularly insurance companies, companies falling in the class of British and foreign direct investments in Canada, and Canadian companies with direct investments abroad. While retirements of Canadian bonds and debentures owned abroad have, in each of the five years, exceeded new Canadian issues sold in capital markets outside of Canada, these redemptions were especially heavy in 1935 and 1936. The large volume of retirements in those two years was partly the result of large maturing issues. But, besides the issues falling due, there were a number of issues of corporation bonds owned abroad that were called for redemption and refinanced by new flotations in the Canadian market. In 1937, however, there was a decided contraction in the total of issues called, with the development of less favourable conditions for refinancing. This decline in net retirements in 1937 is the largest change in the movement of capital between Canada and other countries during the year and is the principal reason for the reduction in the net outward movement of capital, as the other groups of capital movements were outward on balance and in greater amounts than in preceding years.

The net result of the international trade in outstanding securities (classified as Other Security Transactions in the summary table) is noteworthy in 1937, principally for the change in direction that appears on balance. Purchases of outstanding securities by Canada exceeded sales in 1937, in contrast to the excess of sales in each of the four preceding years in which the trade has been completely recorded. In this connection, it is of interest to note that the movement in the index of common stock prices in Canada was upward throughout this period, until March, 1937.

The group of capital movements classified as "Other Capital Movements" in the summary table has grown throughout the five years. To a certain extent these are intercompany and intracompany movements that have increased in scale with the development of recovery. There is, however, a considerable diversity in the composition and significance of these movements that have been on balance outwards during the five year period, and the net increase between 1936 and 1937 must be considered in more detail.

A large part of the increase was due to a larger net debit in the item "Net Capital Transactions of International Direct Investments etc." shown in the detailed capital account for 1937. This increase was a result of the operations of both British and foreign-owned direct investments in Canada and Canadian direct investments abroad. The outward movement on account of the first group of concerns no doubt reflects the increasing incomes of many of these concerns in Canada, whereas the growth in the second group of transactions, those connected with Canadian direct investments abroad, may have been influenced to some extent by the recession in the United States in the latter part of 1937. Net outward remittances of Canadian trust companies included in this item declined, on the other hand, as did also the net outward remittances from insurance companies in Canada. The remaining source of debits recorded on capital account in 1937 was the increase in the net assets of Canadian banks abroad, a result of the growth in the external assets of the Bank of Canada.

Summary Table

Canadian Balance of International Payments 1933 - 1937

Net Receipts or Credits (+): Net Payments or Debits (-)

(In millions of dollars)

	1933	1934	1935	1936	1937
Current Account of Goods, Gold and Services					
1. Merchandise	+146.6	+148.1	+192.7	+322.2	+213.3
2. Gold	+ 87.8	+109.6	+116.7	+131.0	+145.0
3. Tourist Trade	+ 66.2	+ 82.4	+119.2	+140.9	+170.3
4. Interest and dividends	-224.3	-211.6	-208.6	-233.8	-246.2
5. Freight	- 22.1	- 27.9	- 14.1	- 17.8	- 25.5
6. Miscellaneous services	- 34.2	- 25.8	- 29.0	- 34.0	- 38.7
7. Net receipts or credits on current account	+ 20.0	+ 74.8	+176.9	+308.5	+218.2
Capital Account					
8. New Issues and Retirements of Securities	- 26.1	- 58.0	-154.4	-163.9	- 88.4
9. Other Security Transactions	+ 51.0	+ 8.9	+ 51.0	+ 7.8	- 4.8
10. Other Capital Movements	- 51.4	- 66.7	- 70.1	- 97.6	-105.6
11. Net outward capital movement	- 26.5	-115.8	-173.5	-253.7	-198.8
12. Residual item	6.5	41.0	3.4	54.8	19.4

In appraising the effects of the movement of capital between Canada and other countries, during recent years, upon Canada's balance of international indebtedness, it is apparent that these have been more in the direction of reducing the foreign liabilities of Canada rather than in that of increasing Canadian investments abroad. The retirements of Canadian bond issues owned abroad have been definitely in this direction. It is less easy to distinguish the effects upon international indebtedness of the other movements of capital, although these also appear to have been more in the direction of reducing liabilities. In 1937, however, as distinguished from the previous years, it would seem that a smaller proportion of the net outward movement of capital was employed for the reduction of liabilities than formerly. The decline in the net retirements, the increase in external banking assets, and the net purchases by Canada of United States securities all point to this conclusion. But, too much signifiance should not be given to the effects of the annual movement of capital upon international investments, as the values of these investments are subject to a wide range of influences independent of balance of payments transactions.

Particular characteristics and movements in the principal items appearing in the statement are described in more detail in the notes that follow.

Geographical Distribution of Canadian Balance of Payments Transactions 1937

The accompanying table shows the approximate geographical distribution of the net balances of the principal items of the balance of payments in 1937. While the exact distribution of many transactions is recorded, the distribution shown for others is of necessity less accurate than the estimates of transactions with all countries. The table does, however, illustrate the general character of the relations between Canada and the three areas shown. It should be pointed out that the classification of transactions by countries is generally based upon the final incidence of the transactions rather than on the currency in which they were executed.

The credit balance of $218.2 million between Canada and all countries in the current account is the result of credit balances from current transactions with the United Kingdom and other overseas countries of $176.8 million and $96.7 million respectively, as against a debit balance of $55.3 million arising from current account transactions with the United States.

Credit balances from trade with the United Kingdom in merchandise and gold were reduced principally by the large debit balance arising from interest and dividend payments. In current account transactions with the United States, large credit balances from gold and the tourist trade were more than offset by net debits from the merchandise trade, interest and dividends and miscellaneous transactions. In the current transactions with other overseas countries there were substantial net credits from merchandise and interest and dividends.

The net capital movements between Canada and each of the three areas must also be taken into account, as the net capital movement shown by the current account balance with all countries does not in itself disclose the extent of the movements between Canada and each country. The outward movement of capital during the year was predominantly to the United States, outward movements to that country being recorded in each of the principal groups of capital movement. Capital movements between Canada and the United Kingdom were on balance outwards although the total outward movement for retirements and other capital movements was considerably reduced by inward movements of capital through the trade in outstanding securities. Movements of capital between Canada and other overseas countries were on balance inwards.

When the balances on current and capital account are considered together for each of the three areas, the general character of the commercial and financial transactions with these countries during the year, becomes evident. Thus, net receipts from the United Kingdom were $152.5 million, if the net payments on capital account are deducted from the net receipts on current account. Net payments to the United States in 1937, on the other hand, totalled $240.2 million, if the net payments on capital account are added to the net payments on current account. Receipts from current account transactions from the countries other than the United States and United Kingdom were augmented by net receipts from these overseas countries on capital account.

The large volume of capital payments to the United States, as well as the smaller volume of net current payments to that country and the capital payments to the United Kingdom were made possible by the net credits from the current account with the United Kingdom and from the current and capital account with other overseas countries.

Geographical Distribution of the Net Balances of the Principal Items of the Canadian Balance of International Payments, 1937

(In millions of dollars)

	Net credits (+) or net debits (-) Between Canada and			
	All Countries	United Kingdom	United States	Other Countries
Commodity Trade	+213.3	+253.1	-107.3	+67.5
Gold	+145.0	+ 31.8	+111.1	+ 2.1
Tourist Trade	+170.3	- 5.3	+175.6	-
Interest and Dividends	-246.2	- 88.0	-200.2	+42.0
Miscellaneous Current Transactions	- 64.2	- 14.8	- 34.5	-14.9
Net Credits on Current Account ...	+218.2	+176.8	-	+96.7
Net Debits on Current Account	-	-	- 55.3	-
Net Retirements	- 88.4	- 25.7	- 62.4	- 0.3
Other Security Transactions	- 4.8	+ 20.1	- 36.3	+11.4
Other Capital Movements	-105.6	- 18.7	- 86.2	- 0.7
Net Outward Capital Movement	-198.8	- 24.3	-184.9	-
Net Inward Capital Movement	-	-	-	+10.4

Estimated Canadian Balance of International Payments, 1937

(In millions of dollars)

	Credits Exports Visible and Invisible	Debits Imports Visible and Invisible	Net Credits (+) or Debits (-)
Current Account of Goods, Gold and Services			
1. Commodity Trade--			
Recorded merchandise exports and imports	1,125.0	808.9	
Unrecorded imports of ships	-	2.3	
	1,125.0	811.2	
Deductions for settlers effects and other non-commercial items.	3.9	9.8	
	1,121.1	801.4	
Correction for overvaluation and undervaluation	-	6.2	
Deduction of gold bullion and quartz from exports and addition	1,121.1	795.2	
of silver and other coin	111.4	1.2	
Corrected total of commodity trade	1,009.7	796.4	+213.3
2. Gold Exports and Imports (Including Earmarked Gold)--			
Non-monetary	145.1	0.1	
Monetary	-	-	
Total Gold	145.1	0.1	+145.0
3. Freight Receipts and Payments, n.o.p.	111.7	137.2	- 25.5
4. Tourist Expenditures	294.7	124.4	+170.3
5. Interest and Dividend Receipts and Payments	78.8	325.0	-246.2
6. Immigrants' Remittances	7.5	22.0	- 14.5
7. Government Expenditures and Receipts	7.6	11.1	- 3.5
8. Charitable and Missionary Contributions	0.9	2.0	- 1.1
9. Advertising Transactions	2.7	2.5	+ 0.2
10. Motion Picture Earnings	-	4.5	- 4.5
11. Capital of Immigrants and Emigrants	1.6	4.1	- 2.5
12. Earnings of Canadian Residents Employed in U.S.A. and U.S.Residents Employed in Canada	4.9	1.7	+ 3.2
13. Net Payments for Entertainment Services, Royalties etc. not included above	-	16.0	- 16.0
14. Total Credits and Debits as Above	1,665.2	1,447.0	+218.2
15. Balancing Item-Difference Between Credits and Debits Above		218.2	
	1,665.2	1,665.2	

Capital Account

	Credits	Debits	
1. New Issues (par value)	93.0		
Less Commissions and Discounts	3.5		
Net New Issues	89.5	-	- 88.4
2. Retirements of Securities Owned Outside Canada	-	177.9	
3. Sales and Purchases of Outstanding Securities	506.6	511.4	- 4.8
4. Net Capital Transactions of International Direct Investments etc.	-	82.6	- 82.6
5. Insurance Transactions n.o.p.	24.0	34.0	- 10.0
6. Change in Estimated Net Assets of Canadian Banks Outside Canada	-	13.0	- 13.0
7. Total Credits and Debits as above	620.1	818.9	-198.8
8. Balancing Item - Direct Estimate of Net Outward Capital Movement	198.8		
	818.9	818.9	
9. Residual Item(1) - Difference between the Balancing Items of Current and Capital Accounts	19.4		

(1) This item is the difference between Item 15 of the current account, which indirectly indicates the net capital movement, and Item 8 of the capital account, which is the net capital movement arrived at by the direct estimate of the capital movements shown. As these two balancing items would balance in a statement that was absolutely correct and all-inclusive, it may be assumed that the residual item represents either errors in the computations or the omission of transactions which have not been traced.

Notes on the Principal Items of the Current Account

Merchandise Trade (Exclusive of Gold)

In 1937 Canada's credit balance of commodity trade was much lower than in 1936. This contraction in the active balance on merchandise account from $322.2 million in 1936 to $213.3 million in 1937 was the most important change in the current account of the Canadian balance of payments in 1937. A greater increase in the value of imports than in the value of exports was the reason for the shrinkage in net credits. To an important extent the small increase in total exports was the result of the marked decline in grain exports, the consequence of poor crops in the Prairie Provinces, while growing imports customarily follow a period of heavy exports.

But even with this sharp contraction from the peak of 1936, the credit balance on merchandise trade in 1937 was still at an unusually high level, being greater than in any year in the previous decade with the exception of 1936. Reduced balances of exports or increasing debit balances were experienced, however, by many of the debtor countries of the world in the latter half of 1937, with the decline in demand for raw materials and foodstuffs, and the weakness in prices that developed. But, in contrast, it is interesting to observe that the demand for many commodities, especially metals, exported from Canada was well maintained throughout 1937. The Canadian balance of exports in the latter half of the year was greater than in the first half, although exports of wheat, the commodity customarily adding substantially to the value of exports from Canada in the latter part of the year, were unusually light. The behaviour of the Canadian balance of commodity exports in 1937 contrasts with the rapid deterioration in the balances of exports of many of the other primary producing countries in the latter part of 1937.

Analysis of the balance of merchandise trade between Canada and the United Kingdom, the United States and all other countries discloses the divergent trends in the trade with different countries during the year. The balance of merchandise exports, excluding gold and without adjustments for non-commercial and other small items was $92.9 million in the first six months of 1937 and $110.5 million in the last half of the year. In contrast, the balance of imports from the United States was greater during the second half year than during the preceding six months. This debit balance from the merchandise trade with the United States increased from $52.4 million in the first period to $65.1 million in the second. Decreasing credits are also evident in the trade with overseas countries other than the United Kingdom. Net credits derived from the trade with these other countries were $38.2 million in the first half year and $26.7 million in the second half year. The explanation for the growing export balance in the trade with all countries in the second half of the year lies, of course, in the trade with the United Kingdom. Net credits from the merchandise trade with the United Kingdom grew from $107.1 million in the first half year to about $149.0 million in the second half. This change was the result of expanding exports. Imports from the United Kingdom in the second half of 1937 were $8.3 million greater than in the first half, while exports were greater by $50.1 million. This increase in exports to the United Kingdom is particularly impressive when the low level of wheat exports in 1937 is considered. It is clear that the heavy British demand for Canadian merchandise in 1937, especially in the latter part of the year, was a most important factor maintaining Canada's export balance of merchandise trade during the year.

The recorded statistics of merchandise trade, it will be noted, have been adjusted for balance of payments purposes when entered in the balance of payments statement. Besides the deduction of gold bearing quartz and non-monetary gold bullion from exports of merchandise, certain other adjustments have been made. These include

Merchandise Trade, Exclusive of Gold, Between Canada and Other Countries

1937

(In millions of dollars)

For Month of	Total			United States			United Kingdom			Other Countries		
	Exports	Imports	Net Exports(+) Imports(-)	Exports	Imports	Net Exports(+) Imports(-)	Exports	Imports	Net Exports(+) Imports(-)	Exports	Imports	Net Exports(+) Imports(-)
January..	78.0	52.0	+ 26.0	29.1	33.3	- 4.2	30.5	9.3	+ 21.2	18.4	9.4	+ 9.0
February.	64.9	48.7	+ 16.2	26.1	31.8	- 5.7	23.6	9.2	+ 14.4	15.2	7.7	+ 7.5
March ...	84.6	71.1	+ 13.5	35.0	44.8	- 9.8	30.1	12.9	+ 17.2	19.5	13.4	+ 6.1
April ...	59.9	56.9	+ 3.0	26.8	36.7	- 9.9	19.6	10.2	+ 9.4	13.5	10.0	+ 3.5
May	91.3	76.8	+ 14.5	35.4	46.0	- 10.6	34.8	14.5	+ 20.3	21.1	16.3	+ 4.8
June	95.5	75.8	+ 19.7	33.5	45.7	- 12.2	38.0	13.4	+ 24.6	24.0	16.7	+ 7.3
July	92.0	72.1	+ 19.9	33.0	42.0	- 9.0	36.6	14.6	+ 22.0	22.4	15.5	+ 6.9
August ..	91.2	70.1	+ 21.1	33.6	40.3	- 6.7	35.9	13.1	+ 22.8	21.7	16.7	+ 5.0
September	83.8	70.4	+ 13.4	33.4	41.7	- 8.3	33.3	12.7	+ 20.6	17.1	16.0	+ 1.1
October .	94.3	82.2	+ 12.1	32.4	47.4	- 15.0	40.4	13.7	+ 26.7	21.5	21.1	+ 0.4
November	102.0	80.8	+ 21.2	29.0	46.5	- 17.5	49.2	15.0	+ 34.2	23.8	19.3	+ 4.5
December	76.0	53.2	+ 22.8	26.3	34.9	- 8.6	31.3	8.7	+ 22.6	18.4	9.6	+ 8.8
Total - 12 Months	1,013.5	810.1	+ 203.4	373.6	491.1	-117.5	403.3	147.3	+ 256.0	236.6	171.7	+ 64.9

Cumulative Merchandise Trade, Exclusive of Gold, Between Canada and Other Countries

1937

(In millions of dollars)

To End Of	Total			United States			United Kingdom			Other Countries		
	Exports	Imports	Net Exports(+) Imports(-)	Exports	Imports	Net Exports(+) Imports(-)	Exports	Imports	Net Exports(+) Imports(-)	Exports	Imports	Net Exports(+) Imports(-)
January..	78.0	52.0	+ 26.0	29.1	33.3	- 4.2	30.5	9.3	+ 21.2	18.4	9.4	+ 9.0
February.	142.9	100.7	+ 42.2	55.2	65.1	- 9.9	54.1	18.5	+ 35.6	33.6	17.1	+ 16.5
March ...	227.5	171.8	+ 55.7	90.2	109.9	- 19.7	84.2	31.4	+ 52.8	53.1	30.5	+ 22.6
April ...	287.4	228.7	+ 58.7	117.0	146.6	- 29.6	103.8	41.6	+ 62.2	66.6	40.5	+ 26.1
May	378.7	305.5	+ 73.2	152.4	192.6	- 40.2	138.6	56.1	+ 82.5	87.7	56.8	+ 30.9
June.....	474.2	381.3	+ 92.9	185.9	238.3	- 52.4	176.6	69.5	+ 107.1	111.7	73.5	+ 38.2
July	566.2	453.4	+ 112.8	218.9	280.3	- 61.4	213.2	84.1	+ 129.1	134.1	89.0	+ 45.1
August ..	657.4	523.5	+ 133.9	252.5	320.6	- 68.1	249.1	97.2	+ 151.9	155.8	105.7	+ 50.1
September	741.2	593.9	+ 147.3	285.9	362.3	- 76.4	282.4	109.9	+ 172.5	172.9	121.7	+ 51.2
October..	835.5	676.1	+ 159.4	318.3	409.7	- 91.4	322.8	123.6	+ 199.2	194.4	142.8	+ 51.6
November	937.5	756.9	+ 180.6	347.3	456.2	-108.9	372.0	138.6	+ 233.4	218.2	162.1	+ 56.1
December	1,013.5	810.1	+ 203.4	373.6	491.1	-117.5	403.3	147.3	+ 256.0	236.6	171.7	+ 64.9

the addition to imports of unrecorded imports of ships, the deduction from imports nd exports of settlers' effects and other non-commercial items recorded in the trade tatistics, the deduction of goods imported by Canadian tourists returning to Canada hen these have been declared under the $100 tourist exemption clause of the Customs ct as these are included in the estimated expenditures of Canadian tourists in other ountries, and corrections for known overvaluations or undervaluations of imports.

The accompanying tables showing the merchandise trade by months, exclude gold, ut have not been adjusted for the various non-commercial factors mentioned above, as hese latter adjustments have only been made for the year as a whole.

old Exports and Imports--

This item includes all gold exported in the form of quartz, bullion, or coin, s well as Canadian gold sold and earmarked for external account. Accordingly, gold earing quartz and gold bullion other than monetary have been deducted from the statis- ics of merchandise exports, and to them have been added exports of foreign gold coin, nd earmarked gold.

Exports of Gold from Canada, Calendar Year 1937

(In millions of dollars)

	Total Exports	To United Kingdom	To United States	To Other Countries
old Bearing Quartz	7.1	(1)	7.0	0.1
old Bullion-Other than monetary	105.7	2.5	103.2	-
anadian Gold Coin	-	-	-	-
anadian Bullion-Monetary	-	-	-	-
oreign Gold Coin	12.0	9.1	0.9	2.0
oreign Bullion-Monetary	-	-	-	-
otal Exports as above	124.855	11.6	111.1	2.1
armarked Gold	20.2			
otal Sales of Gold	145.1			

(1) Less than .05

The credits in 1937 from gold, $145 million, compare with $132 million in 936 and $116.7 million in 1935. This growth in the credits received from the sale of old outside of Canada reflects the expansion in production in Canada. Dividends paid y mines to shareholders outside of Canada appear as debits in the interest and dividend tem and offset in part the external credits received from the sale of gold, as also do ome transactions recorded in the capital account.

reight Receipts and Payments n.o.p.--

This item includes payments for freight that have not been already included n the value of merchandise imports and exports, as well as earnings on intransit and ther traffic with a direct bearing upon the Canadian balance of payments. Gross re-

ceipts and payments shown for 1937 are heavier than in previous years although the net debits have increased more moderately, being $25.5 million in 1937 as compared with $17.8 million in 1936. The larger gross amounts are due partly to larger payments to United States railways arising from increased imports from that country of merchandise, especially coal, and to higher ocean freight rates. But a change in the method of treating ocean shipping transactions is also responsible for some of the increase in gross amounts.

Tourist Expenditures--

Canada's external income from the tourist trade continued to grow in 1937. The estimated expenditures in Canada of tourists from other countries in 1937 are $294.7 million contrasted with $251.3 million in 1936. This amount is not far short of the peak in expenditures in 1929 estimated at $309.4 million. The principal part of the increase in 1937 was in the expenditures of tourists from the United States entering Canada by automobile on tourist permits. The expenditures of this group constituted more than 60 per cent of the total.

The expenditures of Canadian tourists in other countries are estimated at $124.4 million for 1937 compared with $110.4 million for 1936. These expenditures in 1937 are higher than those estimated for any previous year. Net credits from the tourist trade increased to $170.3 million from $140.9 million in 1936 but were still lower than those estimated for the years from 1929 to 1931.

Estimated Expenditures in Canada of Tourists from Other Countries

	1937	1936
From Overseas Countries	16,972,000	12,946,000
From the United States—		
By Automobile	181,332,000	153,509,000
By Rail and Steamer	69,751,000	64,844,000
Other Visitors (Ferry, airplane, bus, etc.)	26,627,000	20,000,000
Total — All Expenditures	294,682,000	251,299,000

Estimated Expenditures of Canadian Tourists in Foreign Countries

	1937	1936
Overseas Countries	22,335,000	21,336,000
The United States—		
By Automobile	48,893,000	43,811,000
By Rail and Steamer	24,194,000	21,253,000
By Bus, Ferry, Airplane etc.	29,000,000	24,000,000
	124,422,000	110,400,000
Net Credits Received by Canada	170,260,000	140,899,000

Interest and Dividend Receipts and Payments--

Interest and dividends received by Canada from investments in other countries show little change in 1937 from the amounts received in 1936. Income received in these forms from Canadian direct investments abroad was about the same as in the preceding year, while the estimated receipts from United States stocks and foreign bonds increased only slightly.

Dividends paid by Canadian companies to shareholders abroad were more flexible, on the other hand, showing a considerable increase. Total dividends paid by Canadian companies to shareholders resident in other countries are estimated to have been about $172 million in 1937. This amount, however, is still subject to revision as, although the majority of Canadian companies with non-resident shareholders have already reported 1937 dividend payments, there are still some of these payments not yet recorded. Interest paid on Canadian bonds estimated as owned in other countries totalled $153 million in 1937.

Miscellaneous Current Transactions--

Quite a wide range of services is embraced in this group of transactions. Included are government expenditures, charitable and missionary contributions, advertising transactions, motion picture royalties, entertainment services, other royalties, earnings of Canadian residents employed in the United States and of United States residents employed in Canada, immigrants' remittances and the capital of migrants. While some of these groups of transactions give rise to only small net balances, there are several that are more significant in their effects, notably immigrants' remittances and the payments for miscellaneous services including royalties. The net debits from all these transactions were not far short of $40 million in 1937, compared with $34 million in 1936.

Notes on the Items of the Capital Account

New Issues of Canadian Securities Sold Abroad--

The par value of Canadian bond issues sold outside of Canada in 1937, $93.0 million, was slightly lower than in 1936. The principal amount of this total is represented by two Dominion issues floated in New York in January and having a par value of $85,000,000. Although some part of this flotation was subsequently placed in Canada, it is believed that the amounts sold in Canada have been reported as Canadian purchases from the United States in the trade in outstanding securities. Consequently, the amount of the new issue sold in Canada is offset by debits in the "Sales and Purchases of Securities" item of the capital account.

Most of the new issues sold outside of Canada were in connection with refinancing operations. Only a minor part of the total represents new capital raised abroad. At least one purely refinancing operation has been excluded from the total, there being no net capital movement resulting.

Retirements of Canadian Securities Owned Outside of Canada--

Besides maturing issues, this item includes redemptions by call, and remittances from Canada on account of the operations of sinking funds except repurchases reported in the trade in outstanding securities.

Total retirements in 1937 of issues owned outside of Canada were $177.9 million compared with $270.0 million in 1936 and $267.5 million in 1935. This sharp reduction represents the largest change in capital movements in 1937 and is due to a smaller volume of maturities and a decline in the number of corporation issues called for redemption, as circumstances were less favourable in the latter part of the year for refinancing in the Canadian market.

The net outward movement of capital in 1937 arising from the redemption of Canadian bonds owned outside of Canada was $88.4 million. This is the amount by which the amounts owned abroad of retired issues exceeded the net proceeds from the sale of new Canadian issues abroad and compares with $163.9 million in 1936 and $154.4 million in 1935. Most of the net reduction in foreign liabilities was in the indebtedness of Canadian corporations, although the outstanding external indebtedness of provincial and municipal governments was also reduced.

Sales and Purchases of Securities Between Canada and Other Countries--

Although the trade in outstanding securities between Canada and other countries in 1937 was of even greater proportions than in previous years, it was only accompanied by a relatively small net outward movement of capital that was in an opposite direction to the net movement in the preceding years. Total purchases by Canada of $511.4 million exceeded total sales of $506.6 million by only $4.8 million. As sales and purchases almost balanced in the second half of the year, it was in the first half of the year, particularly in April, when these net purchases were executed. In fact, net purchases in the second quarter of the year more than offset the large net sales in the first quarter that were concentrated in February when the prices of stocks were unusually high.

As the amounts of these international security transactions recorded are the amounts of the sales and purchases, the gross transactions are not all accompanied by foreign exchange transactions, especially in the case of stock exchange transactions. Statements received on foreign exchange transactions accompanying reports on sales and purchases of securities, however, reveal that the net sales and purchases generally reflect the movements of capital of significance to the balance of payments.

The net outflow of capital during the year was the result of a number of offsetting capital movements. The more pronounced tendencies are revealed in the trade with different countries and in the trade in the various classes of security. The extent to which the large outflow of capital from Canada to the United States was offset by inflows of capital from the United Kingdom and other overseas countries is shown in the accompanying table.

Sales and Purchases of Securities Between Canada and Other Countries 1937

(Millions of dollars)

	Sales to	Purchases from	Net Sales (+) Purchases (-)
United Kingdom	105.7	85.6	+20.1
United States	376.4	412.7	-36.3
Other Countries	24.5	13.1	+11.4
Total, All Countries	506.6	511.4	- 4.8

The net purchases from the United States of $36.3 million were principally the result of repurchases on balance by Canada of Canadian stocks, although Canadian provincial, municipal and corporation bonds were also purchased in considerable amounts, as well as United States stocks and bonds. During the same period, Dominion government issues and Canadian railway issues were sold on balance to the United States.

On the other hand, the influx of capital from the United Kingdom was produced, for the most part, by sales of Canadian stocks and bonds, although there were also sales of United Kingdom bonds as well. Likewise, excess sales over purchases of the stocks and bonds of Canadian companies and Dominion government bonds were the principal transactions giving rise to the inflow of capital from other overseas countries.

The consequence of these diverse transactions was that, although the total net change in the external ownership of Canadian securities was slight, there were more marked changes in the ownership of particular groups of securities. Thus, reduced United States holdings of Canadian stocks were accompanied by enlarged British and overseas holdings. Then, while external holdings of Dominion Government issues and Canadian railway bonds increased as a result of the trade in securities, there were reductions in the holdings of Canadian provincial, municipal and corporation bonds. Canadian holdings of United States bonds increased and the slight excess of Canadian purchases of United States stocks over sales indicates that Canadian holdings of these securities may also have increased, although fluctuations in the market prices of stocks make such a conclusion uncertain.

In considering the general character of the trade in securities in 1937, as contrasted with previous years, it should be borne in mind that the first serious recession in the prices of Canadian stocks in recent years took place in 1937. The course of the official index of common stock prices shows that the month of March, 1937 marked the termination of an irregular advance that started early in 1933. The declines in the latter part of 1937 were particularly sharp. Canadian net purchases of securities were mostly executed in the months following the peak in stock prices reached in March.

Net Capital Transactions of International Direct Investments etc.--

The net debits arising from this group of transactions totalled $82.6 million in 1937 contrasted with $74.2 million in 1936. The capital movements included in this item are made up of the net transactions not recorded elsewhere connected with (1) British and foreign direct investments in Canada, (2) Canadian direct investments abroad, (3) Canadian trust companies. The first of these groups of transactions is the most important. The increase in the net outward movement was in the first and second groups, the net outflow connected with the operations of Canadian trust companies being less than in the previous year.

Although the transactions shown in this item of the capital account are, for the most part, capital movements, there are some small items of current transactions included.

Insurance Transactions--

The transactions recorded in this item are the movements of funds between Canada and other countries arising from the international operations of insurance companies that are not recorded in other items of the balance of payments statement. The amounts have been reported by both Canadian companies and British and foreign

companies with branches in Canada.

In 1937 the net outflow of funds declined to $10.0 millions contrasted with the net outward movement of $26.0 million in 1936. This was the result of an expansion in the total inward movement of funds and a contraction in the outward movement. The transactions of Canadian companies showed a change from a net outflow in 1936 to a net inflow in 1937, while the operations of British and foreign insurance companies in Canada resulted in a smaller net outflow of funds.

International Insurance Transactions, 1936 and 1937

(A) Movements of Funds, n.o.p., between Canada and Other Countries

(In millions of dollars)

Plus sign indicates net inflow of funds to Canada
Minus sign indicates net outflow of funds from Canada

	1936	1937
Between Canada and		
United Kingdom—		
Inflow from	1.8	9.0
Outflow to	8.0	9.2
Net Movement	-6.2	-0.2
United States—		
Inflow from	14.6	11.8
Outflow to	35.8	23.7
Net Movement	-21.2	-11.9
Other Countries—		
Inflow from	2.6	3.2
Outflow to	1.2	1.1
Net Movement	+1.4	+2.1
All Countries—		
Inflow from	19.0	24.0
Outflow to	45.0	34.0
Net Movement	-26.0	-10.0

(B) Movements of Funds n.o.p. between Canada and all Other Countries by Groups of Companies.

(In millions of dollars)

Plus sign indicates net inflow of funds to Canada
Minus sign indicates net outflow of funds from Canada

	1936	1937
Nationality of Companies		
Canadian Companies--		
Inward	14.6	20.1
Outward	17.5	12.5
Net Movement	-2.9	+7.6
British, United States, and Other Companies--		
Inward	4.4	3.9
Outward	27.5	21.5
Net Movement	-23.1	-17.6
All Companies--		
Inward	19.0	24.0
Outward	45.0	34.0
Net Movement	-26.0	-10.0

Change in Estimated Net Assets of Canadian Banks Outside of Canada--

The estimated net assets of Canadian banks outside of Canada increased by $13.1 million between the beginning and the end of the year. The increase in the external assets of the Bank of Canada was more than this but part of this growth was offset by a decline in the net assets abroad of the chartered banks.

It should be noted that all changes in international short-term banking assets and liabilities are not included in this item. For example, fluctuations in foreign deposits in Canada and Canadian assets or liabilities in foreign banks are not completely reflected in this item. While it is known that the deposits of foreign banks in Canadian banks in Canada increased, it is not known to what extent there were other movements offsetting this apparent inward movement of funds.

Residual Item--

In the balance of payments statement for 1937 the residual item is $19.4 million. This item is the difference between the net movement of capital indicated by the current account balance and the net movement of capital traced in the capital account. Theoretically, in a perfect balance of payments statement, the net balances in the current account and capital account would exactly offset one another. The residual item, therefore, is a measure of the accuracy and completeness of the statement and may reflect either errors or omissions. There is reason to believe that part of the residual item in 1937 is due to the absence of debits in the capital account to offset merchandise exported from Canada under various special circumstances. An illustration is provided by the stocks of newsprint stored in the United States at the end of the year but still owned by Canadian producers. As special transactions such as these are difficult to record exactly, no account of them has been taken in the statement. Similarly, certain other classes of short-term transactions are unrecorded.

CANADA

DEPARTMENT OF TRADE AND COMMERCE

DOMINION BUREAU OF STATISTICS

INTERNAL TRADE BRANCH

THE CANADIAN BALANCE

OF

INTERNATIONAL PAYMENTS

PRELIMINARY STATEMENT
1938

Published by Authority of the HON. W.D. EULER, M.P
Minister of Trade and Commerce.

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Minister of Trade and Commerce

DEPARTMENT OF TRADE AND COMMERCE
DOMINION BUREAU OF STATISTICS - CANADA
INTERNAL TRADE BRANCH

Dominion Statistician: R. H. Coats, LL.D., F.R.S.C., F.S.S. (Hon.)
Chief, Internal Trade Branch: H. Marshall, B.A., F.S.S.
Statistician: C. D. Blyth, B.A.

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Preliminary Statement for 1938

The preliminary statement of the Canadian Balance of International Payments for 1938 presents provisional estimates of the current items of goods, gold and services and the principal capital items in Canada's international accounts for the year. While complete and final information will not be available until later in the year, sufficient data are now available to permit the presentation of the salient features of last year's transactions.

A substantial credit balance on current account, revealing a net outflow of capital from Canada, continued to be the outstanding feature of the Canadian balance of international payments statement for 1938. Thus, changes appearing in the statement for 1938 do not alter the fundamental features characteristic of statements for a period of at least five years. Developments revealed in the statement for 1938, as in other recent years, alter the emphasis and significance of individual groups of transactions rather than point to any transformation in the essential nature of Canada's commercial and financial transactions with other countries.

Statements of the Canadian balance of payments in each of the five years from 1934 to 1938 display many common characteristics as is illustrated in the accompanying summary table. It is noteworthy that each of the principal items or groups of transactions, with the single exception of "other security transactions" in 1937, have given rise to balances of a similar kind in each year throughout the period. For example, a balance of credits in the current account pointing to outward movements of capital, is found in each statement. The principal sources of the credit balances on current account have invariably been the merchandise trade, gold, and the tourist trade, credit balances ruling for each of the three in every year. While debit balances from international payments on account of interest and dividends, freight and miscellaneous services are found in each of the annual statements, they have always been much less than the credit balances from the three items already mentioned. In other words the income of the Dominion from external sources of revenue has exceeded all the current disbursements in other countries made by Canadians by substantial surpluses in every year from 1934 to 1938. These substantial surpluses or credit balances on current account have been employed by Canada for transactions on capital account and the summary of capital movements in the capital account discloses the general nature of the movements of capital.

Capital movements likewise display many parallel tendencies throughout the five-year period. In each year the outward movements of capital for the redemption of Canadian securities owned abroad have exceeded inward movements of capital from the flotation of new issues of Canadian securities in capital markets abroad. Canadian liabilities abroad have accordingly been reduced by such retirement operations. Other security transactions (international trade in outstanding securities) with the exception of 1937 have given rise to inward movements of capital on balance, offsetting in part the reduction in Canadian securities owned abroad resulting from retirements. Other capital movements arising mostly from the international operations of companies and institutions have been outwards on balance and in increasing volume. These, too, have the general effect of either reducing Canadian indebtedness abroad or increasing Canadian assets outside of Canada.

As the summary table shows, the changes in the balance of payments in 1938 were more evident in individual items than in the character of the statement as a whole. The credit balance on current account declined from $218.2 million in 1937 to $184.8 million in 1938. This item is the extent by which receipts from the sale of goods, gold and services to other countries exceeded payments abroad for goods and services. Considering the generally lower level of prices of foodstuffs and raw materials and of incomes throughout the world in 1938, and the wide fluctuations in the merchandise balance of other nations under these circumstances, this change appears moderate. Such international de-

January 31, 1939.

Summary Table

Canadian Balance of International Payments 1934 - 1938

Net Receipts or Credits (+);Net Payments or Debits (-)

(In millions of dollars)

	1934	1935	1936	1937	1938*
Current Account of Goods, Gold and Services					
1. Merchandise	+148.1	+192.7	+322.2	+213.3	+180.5
2. Gold	+109.6	+116.7	+131.0	+145.0	+156.5
3. Tourist Trade	+ 82.4	+119.2	+140.9	+170.3	+145.0
4. Interest and Dividends	-211.6	-208.6	-233.8	-246.2	-242.0
5. Freight	- 27.9	- 14.1	- 17.8	- 25.5	- 20.0
6. Miscellaneous Services	- 25.8	- 29.0	- 34.0	- 38.7	- 35.2
7. Net Receipts or Credits on Current Account	+ 74.8	+176.9	+308.5	+218.2	+184.8
Capital Account					
8. New Issues and Retirements of Securities	- 58.0	-154.4	-163.9	- 88.4	- 60.1
9. Other Security Transactions	+ 8.9	+ 51.0	+ 7.8	- 4.8	+ 27.0
0. Other Capital Movements	- 66.7	- 70.1	- 97.6	-105.6	-127.0
1. Net Outward Capital Movement	-115.8	-173.5	-253.7	-198.8	-160.1
2. Residual Item	41.0	3.4	54.8	19.4	24.7

* Preliminary.

velopments directly influenced the merchandise trade in particular, and most of the other items directly or indirectly as well. For instance, lower prices and reduced demand for merchandise had its effect upon the Canadian merchandise trade, both exports and imports declining. The international tourist trade likewise no doubt reflected reduced incomes, while lower corporate incomes are reflected in the principal changes in the dividends item. Reduced international movements of merchandise and lower ocean freight rates contributed to a decline in net debits on freight account while miscellaneous services also effected reduced debits on balance, the consequence of more diverse causes. The outstanding exception to the changes already pointed out was the gold item. The expansion in net credits from the sale of gold continued, the result of increasing production and rigid price. In brief, the principal changes in the current account in 1938 were the consequence of reduced credit balances from the merchandise and tourist trades, being partly offset by increased credits from the sale of gold and declines in net debits on account of interest and dividends, freight and miscellaneous services with the result that the reduction in the credit balance on current account was only moderate.

As is to be expected, the capital account in 1938 also reveals a contraction n the net outflow of capital. Outstanding among the changes in the capital movements are the reduced outflow of capital for the redemption of Canadian securities, the change in direction in the international trade in securities and the apparent increased proportions of other capital movements. Net retirements were lower as the number of issues maturing in 1938 was less than in recent years, and, conditions being generally less favourable for refinancing than in earlier years, there was also a drop in the number of issues owned abroad that were called for redemption. The international trade n securities gave rise to a net inflow of capital in 1938 in contrast to a small outflow in 1937. Increased demand for Canadian stocks from the United States and from overseas countries other than the United Kingdom was the principal source of the net inflow of capital from the trade in securities. This demand was evident in the reports on he trade in securities during most months of the year including those when international nsettlement prevailed. Less complete information is available at the time of writing n the group of capital transactions classified as "other capital movements". On the basis of the level of transactions in 1937 and previous years and taking account of known evelopments in 1938 together with some detailed information already available the net utflow of capital has been tentatively placed at a higher level than in 1937. Although mounts offsetting entries elsewhere in the statement represent part of this item, it may e generally taken as indicative of an increase in the transactions included in the roup in previous years.

Statements of British and Foreign Capital Invested in Canada and Canadian Investments Abroad as at the end of 1938 will not be available until later in the year.

Notes on the Principal Items of the Current Account

Merchandise Trade (Exclusive of Gold)--

Statistics shown under this item exclude all gold and have also been altered for balance of payments purposes by the elimination of non-commercial items and other adjustments.

Comparable data on the commodity trade for a five-year period follow:

1. Merchandise Trade Between Canada and Other Countries--Exclusive of Gold, and adjusted for Balance of Payments Purposes, 1934-1938.

(In millions of dollars)

	Exports	Imports	Net Credits
1934.....	652.9	504.8	+ 148.1
1935.....	735.6	542.9	+ 192.7
1936.....	947.9	625.7	+ 322.2
1937.....	1,009.7	796.4	+ 213.3
1938.....	847.0	666.5	+ 180.5

As revealed by the above table, the decline in the value of imports in 1938 from the level of the previous year was almost as great as the drop in the value of exports, with the result that the net credits from the commodity trade were only $32.8 million lower than in 1937. The declines in both exports and imports were about 16 per cent. As export prices generally declined more than import prices this would suggest that the decline in the volume of imports was greater than the decline in the volume of exports.

More than half of the credit balance on commodity account resulted from trade recorded in the last four months of the year. Smaller debit balances in the last five months of the year in trade with the United States and sustained demand from the United Kingdom and other overseas countries produced this result even though the value of exports of wheat remained at a low level. The lightest credit balances were in the spring and early summer months. In fact the balance of exports in each of the last three months of 1938 was greater than the balance of trade in any month during 1937 with the exception of January.

From available statistics on the trends in the external trade of other countries in which exports of raw materials and foodstuffs have an important place there is evidence pointing to the conclusion that Canada's balance of merchandise trade was maintained more firmly throughout 1938 and the latter part of 1937 than that of most countries depending upon foreign demand for the sale of primary products. While the merchandise balances of most primary producing debtor countries displayed marked changes as a consequence of reduced foreign demand, the Canadian balance of merchandise exports remained relatively firm. Sustained demand for non-ferrous metals was no doubt an important contributing factor to the strength in the Canadian position. Viewed from the point of view of the balance of payments as a whole, however, it should be pointed out that there are invisible debits elsewhere in the statement offsetting in part credits from the export of some commodities like metals, such as dividends to shareholders abroad of Canadian companies.

Gold Exports and Imports (Including Earmarked Gold)--

Amounts shown in this item have been selected to reflect the transactions in gold with direct effects upon the Canadian balance of payments. Accordingly, imports of gold for deposit in Canada under earmarked account and exports of gold from earmarked account have been deducted, while sales of gold to earmarked account have been included.

Total gold recorded among exports in Canadian trade statistics in 1938 is made up of the following items:

	Millions of dollars
Gold bearing quartz etc.	8.2
Gold bullion other than monetary	67.7
Foreign gold coin.....	60.6
	136.5

Imports of gold recorded in 1938 follow:

	Millions of dollars
Gold in bars, blocks etc.	57.4
Gold coin	0.4
	57.8

But earmarking transactions must be taken into account as well, for substantial amounts of the gold movements included in several of the items above, being movements to and from Canada of earmarked gold, did not give rise to financial transactions with effects upon the Canadian balance of payments. On the other hand, other transactions on earmarked account, i.e. sales of gold to earmarked account, did give rise to credits of significance to the balance of payments although the gold was not exported. Net credits received on account of gold in 1938 amounted to about $156.5 million. This amount is comparable in its significance to the export of an equivalent amount of non-monetary gold and compares with net credits of $145.0 million in 1937, $131.0 million in 1936 and $116.7 million in 1935.

Tourist Expenditures--

A provisional estimate of the tourist trade in 1938 based on incomplete data indicates net credits from tourist expenditures of about $145 million compared with $170.3 million in 1937 and $140.9 million in 1936.

Total expenditures of foreign tourists in Canada in 1938 are estimated tentatively at $267.0 million while the expenditures of Canadian tourists outside of Canada are placed provisionally at $122.0 million. Corresponding foreign expenditures in Canada in 1937 and 1936 were $294.7 and $251.3 million respectively, while Canadian expenditures abroad were $124.4 million in 1937 and $110.4 million in 1936.

Interest and Dividends--

Net payments on account of interest and dividends are estimated tentatively at $242.0 million in 1938 compared with $246.2 million in 1937 and $233.8 million in 1936.

Declines in both interest and dividends paid to investors abroad by Canadian governments and corporations were partly offset by reduced receipts by Canadians from investments outside of Canada, particularly receipts of dividends from United States stocks.

Freight and Miscellaneous Services, etc.--

Payments to other countries for freight and the numerous services grouped under "Miscellaneous Services" customarily exceed receipts. Net payments on account of freight declined from $25.5 million in 1937 to about $20 million in 1938. This was principally due to lower payments to United States railways and to British and foreign ships for the transportation of imports to Canada, the result of reduced quantities of imports and lower ocean freight rates. The decline in such payments from data so far available appears to have been greater than the drop in Canadian revenue from the performance of transportation services for other countries.

Preliminary data also point to a small reduction in payments for miscellaneous services. Items in this group include government expenditures, charitable and missionary contributions, advertising transactions, motion picture and other royalties, entertainment services, the earnings of international commuters, immigrants' remittances, and the capital of international migrants.

Notes on the Capital Account

New Issues and Retirements of Canadian Securities Owned Outside of Canada

Two Dominion government issues constitute the largest part of the total credits of $89.9 million entered in the item of New Issues in the capital account. Both were for purposes of refinancing maturing issues owned outside of Canada. One issue, the 3 1/4% London Loan of £10,000,000 of 1958/63 was floated in the London market in January; the other, the $40,000,000 3%'s of 1968 was sold to a syndicate in New York in November. The amounts credited in the capital account are the par values less commissions, discounts etc. In the case of the London Loan the net proceeds so calculated have been taken although a considerable part of maturing issues held in sinking funds were reinvested in the new loan. Accordingly, the amounts of the maturing issues held in sinking funds have been included among the retirements as offsetting debits. Most of the remainder of the $89.9 million new issues was made up of new issues of stock of Canadian companies sold in England and the United States.

Retirements include the maturing Dominion issues refinanced by the two new issues abroad although the date of one maturing issue, the $40,000,000 2% Notes, is January 1, 1939. Other retirements of issues owned outside of Canada were relatively light in 1938 compared with the volume of retirements in previous years. Serial payments, maturing railway issues and calls of other corporation issues constituted a large part of the remaining retirements.

The preliminary estimate of net retirements of $60.1 million in 1938 compares with $88.1 million in 1937, $163.9 million in 1936 and $154.4 million in 1935. These are the amounts by which retired issues owned abroad exceeded the net proceeds from the sale of new issues abroad. They are an estimation of the net outward movement of capital arising from redemption operations and are an indication of the extent by which Canadian indebtedness abroad has been reduced in recent years by means of redemptions.

Sales and Purchases of Outstanding Securities

Statistics entered in this item of the capital account are derived from monthly reports by banks, brokers, investment dealers etc. on the international trade in securities. While at the time the accompanying statement was prepared the records of the trade during the first eleven months were on hand, it was necessary to estimate the trade during December on the basis of partial returns.

The principal development in the international trade in outstanding securities in 1938 as contrasted with 1937 is the change in direction. Whereas in 1937 there was a small balance of purchases, in 1938 sales of securities by Canada to other countries exceeded purchases as was the case during the years prior to 1937 in which the trade has been recorded.

The direction of trading between Canada and the United Kingdom, United States and other countries was definite throughout the year. Inflows of capital from the United States and from other countries were only partly offset by outflows to the United Kingdom in almost every month. In the eleven months ending in November net sales to all countries were almost $36 million. During the same period net sales to the United States were more than $27 million and to other countries $17 million, while net repurchases from the United Kingdom amounted to about $8 million. Information available on the trade during December indicates that the balance of sales to the United States for the twelve months was somewhat lower than during the eleven months. In contrast, in the year 1937, inflows of capital through the trade in securities from the United Kingdom and other countries were exceeded by a predominant net outflow to the United States.

Most of the net sales in 1938 were concentrated in the trade in Canadian stocks. During the first eleven months net sales to the United States of the stocks of Canadian companies were $22 million while net repurchases of Canadian stocks from the United Kingdom amounted to about $8 million. Most of the increased demand from other overseas countries was also for Canadian stocks, the balance of sales being $15 million.

Less marked balances resulted from the trade in other groups of securities. Although the volume of transactions was large, total sales of bonds only exceeded purchases by a few million in the first eleven months, while large purchases of United States bonds in December resulted in net purchases of bonds for the twelve-month period. Likewise volume of trading in United States stocks was large, but the balance of sales for the year as a whole was not great.

Net sales characterized the total trade during the year in Dominion government and Canadian corporation bonds and both also appeared on balance in the trade with each of the United Kingdom, the United States and other countries with the exception of transactions in corporation bonds between Canada and the United Kingdom.

Groups of issues purchased by Canada on balance during the year were Provincial, Municipal, Railway, and United States bonds, both government and corporate. Most of these repurchases of bonds were from the United States although repurchases of Canadian corporation bonds and Dominion guarantees from the United Kingdom were also appreciable.

Other Capital Movements

Information regarding the extent of the capital movements in this group is less complete at the time of writing than for most other items of the balance of payments. Reports on international transactions will only be received from most of the companies and institutions concerned at a later date in the year. Sufficient information, however, is already available on the general character and scale of the transactions covered in this item to establish the predominant direction of the movements and to indicate their approximate proportions.

In 1938 the net movements of capital included in this group continued to be outwards on balance and in very large volume, probably of greater proportions than in the preceding year. To a certain extent, however, this apparent increase in outward movements of capital is due to the necessity of introducing in the capital account debits to offset some entries in other items of the statement.

The principal groups of transactions included among "other capital movements" are those arising from the operations of banks, insurance companies, trust companies, concerns in Canada falling in the category of British and foreign direct investments in Canada and Canadian companies with direct investments in branches or subsidiaries abroad.

Residual Item

This is a balancing item measuring the difference between the balancing items of the current and capital accounts. Theoretically, in a perfect balance of payments statement, the net balances in the current account and capital account would exactly offset one another. The residual item, therefore, is a measure of the accuracy and completeness of the statement and may reflect either errors or omissions. In a preliminary statement like the present it is not usually possible to draw very definite conclusions regarding the character of transactions or estimates affecting the residual item.

Estimated Canadian Balance of International Payments

Preliminary Statement for 1938

(In millions of dollars)

	Credits Exports Visible and Invisible	Debits Imports Visible and Invisible	Net Credits (+) or Debits (-)
Current Account of Goods, Gold and Services			
1. Commodity Trade (adjusted)	847.0	666.5	+ 180.5
2. Gold (Net credits)(1)	156.5	-	+ 156.5
3. Tourist Expenditures(2)	267.0	122.0	+ 145.0
4. Interest and Dividends	70.0	312.0	- 242.0
5. Freight Transactions n.o.p.	101.0	121.0	- 20.0
6. Miscellaneous Services, etc.	24.6	59.8	- 35.2
7. Total Credits and Debits as Above	1,466.1	1,281.3	+ 184.8
8. Balancing Item--Difference between Credits and Debits Above		184.8	
	1,466.1	1,466.1	

Capital Account	Credits	Debits	
1. New Issues of Canadian Securities sold abroad (including refinancing)	89.9	-)	
2. Retirements of Canadian Securities Owned abroad	-	) 150.0)	- 60.1
3. Sales and Purchases of Outstanding Securities	367.0	340.0	+ 27.0
4. Other Capital Movements (Net)	-	127.0	- 127.0
5. Total Credits and Debits as Above	456.9	617.0	- 160.1
6. Balancing Item--Difference between the balancing items of current and capital accounts	24.7		

(1) Includes earmarked gold--see notes.

(2) Provisional estimate based on incomplete data.

CANADA

DEPARTMENT OF TRADE AND COMMERCE

DOMINION BUREAU OF STATISTICS

INTERNAL TRADE BRANCH

THE CANADIAN BALANCE

OF

INTERNATIONAL PAYMENTS

REVISED STATEMENT, 1938
AND
PRELIMINARY STATEMENT, 1939

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ominion Statistician:	R. H. Coats, LL.D., F.R.S.C., F.S.S. (Hon.)
ief, Internal Trade Branch:	H. Marshall, B.A., F.S.S.
atistician:	C. D. Blyth, B.A.

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Preliminary Statement for 1939

The preliminary statement of the Canadian Balance of International Payments or 1939 presents provisional estimates of the current items of goods, gold and services nd the principal capital items in Canada's international accounts for the year. While omplete and final information will not be available until later in the year, sufficient ata are now available to permit the presentation of the salient features of last year's ransactions.

The Canadian Balance of International Payments for the year 1939 retained the me general outline as revealed by statements for a period of years. As has been the ase in each year since 1933, the current external income of the Dominion exceeded curent disbursements in other countries by a wide margin. The balance of credits on curent account in 1939 was $209 million compared with $180 million in 1938 and $218 million in 1937.

Income from each of the three principal sources of revenue, merchandise, gold nd the tourist trade was at a higher level than in 1938 but payments to other countries n account of interest and dividends and freight were also somewhat higher. The three road groups of capital movements shown in the capital account also attained greater roportions than in 1938 and followed in the same direction as in the preceding year. or example, the outflow of capital for the retirement of Canadian securities owned oroad was heavier, while the inflow of capital arising on balance from sales and purhases of outstanding securities was also in greater volume than in 1938. Other capital ovements, including changes in short-term foreign assets and liabilities, continued to e heavier and reflected debits on balance.

Influences affecting the balance of payments in 1939 were, however, much more iverse than the above-noted parallel changes in the statement would suggest. Among e economic influences of significance to Canada in the pre-war months was the higher evel of economic activity in North America compared with the first part of the previous ear, and the greater concentration upon rearmament in Europe. During this period some f the predominant movement of capital from Europe to New York was diverted to Canada lthough on a relatively small scale; while in the first six months of the year there ere appreciable inflows of capital to Canada from the United States. With the outbreak f war an entirely new background was created. The widespread extension of economic ontrols and the concentration of effort in belligerent countries imposed a new economic ramework which is exemplified by foreign exchange control, the regulation of internaional capital movements and the increased importance of public finance. The realignment f foreign exchange rates that accompanied the war has also had profound influences pon the commercial and financial relations between nations. The rapidly accelerated ace of business in the United States was another influential factor in the latter half f the year.

Alterations in the balance of payments statement in 1939 should accordingly e regarded in the light of changing conditions and special circumstances. The larger alances of credits from the merchandise and tourist trades and from gold reflect in the ain increased external income. An increase in exports of merchandise to the United tates was an important factor contributing to the larger credit balance, as this expanion in exports was more than sufficient to offset the larger imports from the United tates and the contraction in the credit balances from trade with the United Kingdom and ther overseas countries. This reduction in the debit balance on merchandise account ith the United States took place in the pre-war months as both imports and exports beween Canada and the United States were greater after August. The expansion in the alue of trade in the latter months of the year was a reflection of heavier demand for oods in both countries as well as of the effects of the lower foreign exchange value f the Canadian dollar upon the value of trade in terms of Canadian currency.

Summary Table

Canadian Balance of International Payments 1935 - 1939

Net Receipts or Credits (+);Net Payments or Debits (-)

(In millions of dollars)

	1935	1936	1937	1938	1939(1)
Current Account of Goods, Gold and Services					
1. Merchandise	+192.7	+322.2	+213.3	+181.9	+202.0
2. Gold(2)	+116.7	+131.0	+145.0	+156.5	+184.4
3. Tourist Trade	+119.2	+140.9	+170.3	+161.7	+165.0
4. Interest and Dividends	-208.6	-233.8	-246.2	-251.0	-260.8
5. Freight	- 14.1	- 17.8	- 25.5	- 25.4	- 40.8
6. Miscellaneous Services	- 29.0	- 34.0	- 38.7	- 43.5	- 40.8
7. Net Receipts or Credits on Current Account	+176.9	+308.5	+218.2	+180.2	+209.0
Capital Account					
8. New Issues and Retirements of Securities	-154.4	-163.9	- 88.4	- 61.9	- 90.2
9. Sales and Purchases of Outstanding Securities	+ 51.0	+ 7.8	- 4.8	+ 28.9	+ 72.1
10. Other Capital Movements	- 70.0	- 97.6	-105.6	-102.0	-144.0
11. Net Outward Capital Movement	-173.5	-253.7	-198.8	-135.0	-162.1
12. Residual Item	3.4	54.8	19.4	45.2	46.9

(1) Preliminary

(2) In 1939 this item represents "Net Exports of Non-Monetary Gold" rather than "Net Credits."

The exchange factor also had the effect of raising the value of net exports of non-monetary gold in the months following August, although the main increase in the value of exports of non-monetary gold is on account of larger production of the metal in Canada. It should be noted that the figure representing net exports of non-monetary gold in 1939 includes domestic monetary purchases. The increase in the gold stock of the Bank of Canada in 1939 due to purchases of gold amounted to $21,152,000. This credit appearing in the current account is offset in the capital account by an entry of the same amount.

While preliminary estimates of the tourist trade show a slightly higher balance of credits, it will be observed that tourist expenditures both in Canada and outside of Canada declined. The contraction in the expenditures of Canadians outside of Canada was greater than that in expenditures in Canada. The total expenditures in Canada were fairly well sustained because of the heavy volume of travel in the summer months before the war.

Net payments for interest and dividends are estimated at a higher level in 1939 than in any year since 1932. The change in balance was chiefly due to a sharp drop in receipts of dividends from some companies operating abroad in which there are large Canadian interests. Total payments of interest and dividends by Canada to investors abroad were not much changed so far as can be ascertained from available information. While interest payments in recent years have been appreciably reduced because of the volume of retirements of Canadian bonds owned abroad, the reduction in 1939 was not very great, as the premium on United States dollars paid to bondholders abroad in the latter months of the year was sufficient to cancel part of the reduction due to retirements in 1938 and 1939. Information to hand regarding dividend payments by Canadian companies to shareholders abroad is as yet incomplete, but indicates that such payments, both to portfolio shareholders and to parent companies outside of Canada, continued to be heavy. Payments on account of freight were also greater, a reflection in part of

ncreased imports from the United States and of a sharp rise in the cost of ocean transportation. Other payments for services remained substantial on balance, even though some sources of credits furnished larger receipts.

While capital movements in 1939 continued to be predominantly outwards, there were important counter-movements as well as special circumstances to be considered. The net retirement of Canadian securities owned abroad was again an outstanding feature of the Canadian capital account. The excess of retirements over new issues abroad in 1939 is estimated at $90.2 million as compared with $61.9 million in the previous year. A major contributing factor to this large excess of retirements over new issues abroad was the redemption of part of the Dominion of Canada 3 1/2% Registered Stock of 1930-50, which was called after the outbreak of the war, since a number of the other externally-owned bonds retired during the year were refinanced by new bond issues sold in the United States. This repatriation operation, begun in November, is an important factor in the Dominion's contribution to the allied war effort. In contrast, the amount of new issues sold in the United States before the war was greater than the amount of retired issues owned there. The net retirements of $90 million do not represent a net outflow of funds equal to that entire amount in 1939, as there were offsetting changes in short-term banking assets and liabilities in connection with these security transactions which are taken into account in the item "Other Capital Movements."

In contrast to the outward movement of capital for the retirement of securities is the large inflow of capital from the international trade in outstanding securities. Sales of securities to other countries surpassed purchases by $72 million. This capital inflow was from the United States and other foreign countries, Canada having repurchased securities from the United Kingdom on balance. The influx, although heaviest in the first five months, was maintained throughout the year except in the months of June and September. In the months following September the capital inflow was almost all from the United States. This inflow of capital arising from the international trade in securities was accounted for principally by the trade in Canadian and United States securities. Canadian securities were, on balance, sold to United States and European investors, the United States preference being for Canadian bonds while most of the other foreign demand was for Canadian stocks. Sales of United States stocks by Canadians were substantial.

Less complete information is available at the time of writing regarding other capital movements in 1939. Nevertheless, the extent of certain groups of transactions is already known and sufficient data on the trend in others are available to furnish the basis of a preliminary estimate. This group of capital movements gave rise to a larger net debit than in previous years. Included in this item are capital movements connected with international direct investments, insurance companies, changes in short-term assets and liabilities and accounting adjustments such as a debit entry to offset the inclusion of domestic monetary purchases in the credit item of the current account "Net Exports of Non-Monetary Gold."

The long-run effects of the capital movements in 1939 upon the balance of international indebtednes of Canada were varied. British holdings of Canadian securities were reduced while United States holdings of Canadian bonds and other foreign holdings of Canadian securities, particularly stocks, increased. At the same time Canadian holdings of United States stocks were reduced appreciably. The effects of operations during the year upon the value of direct investments and upon the value of portfolio holdings of existing stocks can only be ascertained after a detailed appraisal. Fluctuations in short-term assets and liabilities were considerable and, being subject to unusual developments, require special interpretation.

Notes on the Principal Items of the Current Account

Merchandise Trade (Exclusive of Gold)

Statistics shown under this item exclude all gold and have also been altered for balance of payments purposes by adjustments such as the elimination of non-commercial items.

omparable data on the commodity trade for a five-year period follow:

1. Merchandise Trade Between Canada and Other Countries (Exclusive of Gold), adjusted for Balance of Payments Purposes 1935-1939.

(In millions of dollars)

	Exports	Imports	Net Credits
1935	735.6	542.9	+ 192.7
1936	947.9	625.7	+ 322.2
1937	1,009.7	796.4	+ 213.3
1938	847.1	665.2	+ 181.9
1939	933.6	731.6	+ 202.0

The value of both exports and imports increased approximately 10 per cent in 1939. The gain in exports was $86.5 million, while the gain in imports was $66.4 million with the result that net credits from merchandise during the year increased from $181.9 million to $202.0 million. Some increase in the Canadian dollar value of trade in the last third of the year is attributable to the premium on United States dollars.

As is customary there were large credit balances from merchandise trade with the United Kingdom and other overseas countries and a debit balance from trade with the United States. Although the credit balances from trade with the United Kingdom and overseas countries were lower in 1939 than in 1938, the effects of such contractions upon the balance of trade with all countries were more than offset by a reduction in the debit trade balance with the United States. For, while imports from the United States reached their highest level since 1930, exports to that country also were greater than in recent years and increased more in 1939 than did imports.

Gold

The amount of $184.4 million entered in the statement for 1939 to account for gold represents the value of "net exports of non-monetary gold" as computed by the Bank of Canada. This figure is not comparable with those used in the gold item of the balance of payments statement in previous years, mainly for the reason that it includes gold purchased for domestic monetary stocks. Such amounts, however, are offset in the capital account of the balance of payments in 1939 by a debit entry included in the item "Other Capital Movements" representing an equivalent import of monetary gold. The figure used in the gold item for 1938 reflects the net credits received, and consequently does not include "domestic monetary purchases" in that year. Net exports of non-monetary gold in 1938 are computed at $160.5 million, a figure comparable to the $184.4 million shown in the statement for 1939. Changes in gold held under earmark were taken into account in calculating all amounts shown.

Although the principal reason for the larger exports of non-monetary gold in 1939 was the increase in production, another factor was the premium on United States dollars from August until the end of the year.

Tourist Expenditures

Preliminary estimates of the international expenditures of tourists and travellers indicate that there was a balance of credits in Canada's favour of about $165 million in 1939 compared with $162 million estimated for 1938.

Total expenditures of tourists from other countries are provisionally estimated at $275 million, while the expenditures of Canadians outside of Canada are placed at $110 million. Both groups of expenditure were lower than in 1938 when the corresponding amounts were about $283 million and $121 million respectively. While the outbreak of the war affected the tourist trade, the resulting reductions in some types of traffic appear to have been more than offset by heavier movements earlier in the year.

A summary of tourist expenditures in recent years follows:

Estimated Tourist Expenditures 1935-1939

(In millions of dollars)

	Expenditures in Canada of Tourists from Foreign Countries (Credits)	Expenditures of Canadian Tourists in Foreign Countries (Debits)	Net Credits
1935	214.8	95.6	119.2
1936	251.3	110.4	140.9
1937	294.7	124.4	170.3
1938	283.0	121.0	162.0
1939	275.0	110.0	165.0

Interest and Dividends

Net payments on account of interest and dividends are provisionally estimated at $260.8 million compared with $251 million in 1938.

The most important change was the decline in receipts of dividends from companies abroad, which had the effect of increasing net payments on interest and dividends account, as available information indicates that total payments by Canada in 1939 were about the same as in 1938. Any reduction in interest on Canadian bonds paid to bondholders abroad because of retirements and refinancing was mostly offset by the premium on United States dollars in the last quarter of the year. Partial data on dividend payments of Canadian companies, on hand at the time of writing, indicates that dividends paid to both portfolio investors and parent companies remained at a high level in 1939.

Estimated Receipts and Payments of Interest and Dividends by Canada 1935-1939

(In millions of dollars)

	Received by Canada from Investments Abroad	Paid by Canada on British and Foreign Investments in Canada	Net Payments (-)
1935	62.0	270.6	- 208.6
1936.....	76.2	310.0	- 233.8
1937	78.8	325.0	- 246.2
1938	66.0	317.0	- 251.0
1939	53.2	314.0	- 260.8

Freight and Miscellaneous Services

Although it is possible to estimate only approximately, so early in the year, the changes on freight account, sufficient information is available to reveal the trend. A substantial increase in net debits is allowed for in this item on account of larger payments to United States railways for freight on increased imports and on account of the very sharp rise in ocean freight rates and the war risk insurance in the last four months of the year.

Preliminary estimates do not point to much change on balance in the payments for other services, etc. Included in this group are government expenditures for other purposes than merchandise, interest, and principal; charitable and missionary contributions; advertising transactions; motion picture and other royalties; entertainment services; the earnings of international commuters; immigrants' remittances; and the capital of immigrants and emigrants. Among the more notable changes in this group of transactions in 1939 were heavier government expenditures on account of the war and substantial imports of capital before the war by refugees and other immigrants from Europe. In some instances capital brought by the latter was used to establish new industries in Canada.

Notes on the Capital Account

New Issues and Retirements of Canadian Securities Owned Outside of Canada

Retirements of Canadian securities owned abroad continued to exceed sales of ewly issued Canadian securities outside of Canada. Net retirements in 1939 are esti-ated at $90.2 million compared with $61.9 million in 1938. Both new issues and retire-ents were in heavier volume in 1939 than for several years.

Estimated New Issues and Retirements of Canadian Securities Owned Outside of Canada 1935-1939

(In millions of dollars)

	New Issues Sold Abroad	Retirements of Issues Owned Abroad	Net Retirements
1935	117.0	271.4	- 154.4
1936	106.1	270.0	- 163.9
1937	89.5	177.9	- 88.4
1938	88.6	150.5	- 61.9
1939	144.5	234.7	- 90.2

As the above table reveals, the total of new issues sold outside of Canada in 1939 was the highest during the past five years. Each group of bonds, Dominion, provincial, municipal and corporate is represented in the total, and about one half of the total is made up by large public utility issues. With the exception of a municipal issue sold in the Netherlands, practically all of the new issues were sold in the United States. Most of the bonds sold were for the purpose of refinancing maturing or called issues owned outside of Canada and a substantial part of the credits shown in new issues account is offset by debits in the item "Other Capital Movements" representing a rise in short-term foreign assets.

Of the total issues owned abroad which were retired during the year considerably more than half were called for redemption before maturity. While some of the retired issues were refinanced by the new issues sold outside of Canada referred to above, others were refinanced by issues sold in domestic capital markets. Retirements were heaviest among corporation issues and these, along with that part of the Dominion of Canada 3 1/2% Registered Stock of 1930-50 which was redeemed during 1939, represent the bulk of the total retirements of $234.7 million. The Dominion Government, municipalities and corporations retired, on balance, securities owned abroad, while sales of new issues of provincial government bonds in the United States exceeded retirements by an appreciable margin.

Although total net retirements amounted to $90.1 million, there were inflows of capital on balance from the United States and from overseas countries other than the United Kingdom, arising from sales of new issues. It is estimated that new issues in the United States exceeded retirements during the year by $26.1 million while net new issues in "other countries" were about $3.4 million. The net retirement of issues owned in the United Kingdom, on the other hand, are estimated at about $119.7 million. This inflow of capital from the United States and other countries took place in the months before the war while, in contrast, most of the retirements of issues held in the United Kingdom took place after the outbreak of war. In fact, the repatriation of the Dominion of Canada 3 1/2% Registered Stock accounts for a large portion of the retirements of bonds held in the United Kingdom, and this operation is part of Canada's economic contribution to the prosecution of the war.

It should be pointed out, however, that some of the amounts discussed above are offset in the balance of payments statement for 1939 by debits and credits taken into account in the computation of the item "Other Capital Movements" to represent changes in short-term banking assets and liabilities resulting directly from security transactions entered in the New Issues and Retirements item.

Sales and Purchases of Outstanding Securities

Although the volume of trading in securities between Canada and other countries was smaller in 1939 than in 1938 the net inflow of capital was much heavier. Sales of securities by Canada to other countries exceeded purchases by $72.1 million.

Sales and Purchases of Securities Between Canada and Other Countries 1935-1939

(Millions of dollars)

	Sales to Other Countries	Purchases from Other Countries	Net Sales (+) Net Purchases (-)
1935	301.8	250.8	+ 51.0
1936	422.5	414.7	+ 7.8
1937	506.6	511.4	- 4.8
1938	369.2	340.3	+ 28.9
1939	311.0	238.9	+ 72.1

Most of the inflow of capital in 1939 was from the United States. Of the total net sales to all countries shown above there were $57.4 million originating in the trade with the United States. The remaining inflow was from overseas countries other than the United Kingdom, net sales to these countries being $20.2 million, while in the trade with the United Kingdom there were net repurchases by Canadians of $5.5 million.

The inflow of capital from the United States arose from sales of both Canadian and United States securities. Net sales of Canadian securities to that country were in the trade in bonds, there being small repurchases of Canadian stocks on balance. The inflow of capital from overseas countries, mainly from continental Europe, was, on the other hand, mostly for the acquisition of Canadian stocks. Both Canadian stocks and bonds were repurchased in the trade with the United Kingdom.

Sales and Purchases of Securities Between Canada and Other Countries, by Groups of Securities, 1939

(In millions of dollars)

	Sales	Purchases	Net Sales (+) Net Purchases (-)
Canadian Bonds	117.8	78.7	+ 39.1
Canadian Stocks	78.0	66.0	+ 12.0
Total - Canadian Securities	195.9	144.7	+ 51.2
United States Bonds	14.3	13.3	+ 1.0
United States Stocks	88.3	71.0	+ 17.3
Total - United States Securities..	102.6	84.3	+ 18.3
Other Securities - including unspecified bonds	12.5	9.9	+ 2.6
Total - All Securities	311.0	238.9	+ 72.1

As the above table reveals, foreign holdings of Canadian securities increased while Canadian holdings of United States securities were reduced as a result of the trade in securities. Of the total of $72.1 million net sales of securities by Canada during the year, there were $51.2 million originating from the trade in Canadian securities, $18.3 million from dealings in United States securities, $1.0 million in United Kingdom securities, while the remaining $1.6 million was made up of short-term and other foreign and unspecified securities. Dominion, provincial, Dominion guaranteed and corporation bonds were all sold on balance. Net sales of all groups of Canadian bonds amounted to $39.1 million while net sales of Canadian stocks were $12.0 million. Almost all of the $18.3 million net sales of United States securities were in the trade in stocks.

Partially offsetting the net credits of $72.1 million entered in the capital account of the balance of payments statement under the item "Sales and Purchases of

utstanding Securities" are debits appearing in the item "Other Capital Movements." hese debits represent an estimate of the difference between net sales of securities and et sales of foreign exchange. This difference arises from various factors, including he reduction of Canadian brokerage balances in New York.

Other Capital Movements

Preliminary estimates of other capital movements in 1939 point to a considerably larger net debit than in 1938. While records of many of the transactions included n this item will not be available until later in the year, sufficient records of important parts of the item as well as preliminary data covering other parts are on hand o permit a tentative estimate, which may be regarded as indicative of the trend rather han representing the absolute amount involved. It should be pointed out that this tem does not exclusively reflect long-term capital movements, as a substantial part of he item represents changes in short-term assets and liabilities and unavoidable accounting offsets to transactions entered elsewhere in the balance of payments statements.

Included in "Other Capital Movements" are estimates of the net remittances between companies in Canada and their head offices and subsidiaries in other countries hen these remittances are not entered elsewhere in the balance of payments statement, .g. in the interest and dividends item. The operations of a very large group of companies are therefore accounted for by this item, embracing as it does the transactions f British and foreign branch and subsidiary companies in Canada and of the foreign ubsidiaries of Canadian companies as well as of insurance companies and Canadian trust ompanies. The heading "Other Capital Movements" also covers the net change in the oreign assets of Canadian banks and an adjustment to the statistics of sales and purhases of outstanding securities referred to in the notes on that item. In the computaion of changes in short-term banking assets and liabilities in 1939, allowance was ade for some unusually large transactions partly offsetting entries in the items reresenting new issues and retirements of Canadian securities owned outside of Canada. urchases of gold for domestic monetary stocks have been entered as debits here to offet their inclusion in the current account item "Net Exports of Non-Monetary Gold."

Residual Item

This is a balancing item measuring the difference between the balancing items f the current and capital accounts. Theoretically, in a perfect balance of payments tatement, the net balances in the current account and capital account would exactly ffset one another. The residual item, therefore, is a measure of the accuracy and completeness of the statement and may reflect either errors or omissions. In a preliminary tatement such as the present it is not usually possible to draw very definite conclusions regarding the character of transactions or estimates affecting the residual item.

Estimated Canadian Balance of International Payments

Preliminary Statement for 1939

(In millions of dollars)

	Credits Exports Visible and Invisible	Debits Imports Visible and Invisible	Net Credits (+) or Debits (-)
Current Account of Goods, Gold and Services			
Merchandise Trade (Adjusted)	933.6	731.6	+ 202.0
Gold[1]	184.4	-	+ 184.4
Tourist Expenditures	275.0	110.0	+ 165.0
Interest and Dividends	53.2	314.0	- 260.8
Freight Transactions n.o.p.	86.0	126.8	- 40.8
Miscellaneous Services etc.	29.1	69.9	- 40.8
Total Credits and Debits as Above	1,561.3	1,352.3	+ 209.0
Balancing Item - Difference between Credits and Debits above		209.0	
	1,561.3	1,561.3	
	Credits	**Debits**	
Capital Account			
New Issues of Canadian Securities sold abroad (including refinancing)	144.5	)	
Retirements of Canadian Securities owned abroad		) 234.7)	- 90.2
Sales and Purchases of Outstanding Securities	311.0	238.9	+ 72.1
Other Capital Movements (Net)	-	144.0	- 144.0
Total Credits and Debits as Above	455.5	617.6	- 162.1
Balancing Item - Direct Estimate of Net Outward Movement of Capital	162.1		
	617.6	617.6	
Residual Item - Difference between the balancing items of Current and Capital Accounts	46.9		

(1) "Net Exports of Non-Monetary Gold" - Includes Domestic Monetary Purchases.

REVISED STATEMENT 1938

Geographical Distribution of Canada's International Payments in 1938

A revised statement of the Canadian Balance of International Payments in 1938 howing the geographical distribution of transactions is presented in a table at the nd of this report. While the geographical distribution of some important groups of ransactions is a matter of record, that for others is estimated. Although the distri- ution of transactions by countries is based on less well-defined data than the totals or all countries, the analysis does provide a delineation of the main outlines of anada's commercial and financial dealings with the United Kingdom, the United States nd other countries. It throws light upon the sources of demand for Canadian goods and ervices as well as on the distribution of Canadian purchases of goods and services. It lso reveals the direct source and destination of movements of capital although the eneficial ownership or ultimate destination of capital may not always be disclosed. In eneral, it should be noted that transactions are classified in the statement by country f residence of the participants rather than by the currency in which they are executed.

The geographical distribution of the Canadian Balance of Payments in 1938 re- eals the following broad outlines. Net credits were derived from current account ransactions with the United Kingdom and from both current and capital account transac- ions with "other countries" while there were net debits on capital account with the nited Kingdom and on both current and capital accounts with the United States. The rincipal changes between 1937 and 1938 in the current account balances consisted of arger net credits with the United Kingdom and "other countries" and a larger balance of ebits with the United States. The main changes in the capital account were: an in- reased outward capital movement to the United Kingdom, a sharp contraction in the out- low to the United States, and a heavier inflow from other countries. Total net pay- ents on current and capital account to the United States were smaller, while total net eceipts from the United Kingdom were lower and those from other countries were higher.

In current trading with the United Kingdom in 1938 merchandise and gold pro- ded the sources of large balances of credits which were partly cancelled by substan- al payments of interest and dividends to investors in the United Kingdom and by appre- able payments for other groups of services. The balance of credits on current ac- unt was greater than in 1937. Capital movements in each of the three groups shown re predominantly towards the United Kingdom, with the result that the net outflow of pital of $53.2 million from Canada to the United Kingdom in 1938 was the highest in e twelve years (1927-1938) for which statistics are available. Total net credits on rrent and capital account combined were accordingly slightly lower in 1938 than in 37, being $143.1 million as against $152.5 million.

In the current account with the United States the tourist trade and gold con- nued to be the main sources of credits on balance, while the merchandise trade and terest and dividend payments to United States investors gave rise to the bulk of the bits. The balance of debits in the current account with the United States rose arply in 1938 as a result of increased debits in the merchandise trade and decreased edits from gold and tourist expenditures, and was higher than in any year since 1933. e net movement of capital from Canada to the United States was much smaller than in 37 or other recent years. While retirements of Canadian securities owned in the ited States and "other capital movements" were somewhat smaller, the main reason for e reduced net outflow was the net inflow of capital arising from the trade in out- anding securities in contrast to an opposite movement in 1937. Total net payments on rrent and capital account with the United States in 1938 were $233.8 million compared th $240.2 million in 1937, the reduction in capital outflow being mostly offset by creased net payments on current account.

The current account with "other countries," i.e. countries other than the ited Kingdom and the United States, shows larger net credits than in any year since 29. A rise in net credits from merchandise, and unusual exports of gold to Europe, re responsible for the increase. The capital inflow to Canada from "other countries" s also larger than usual. Most of this inflow came from sales of Canadian stocks to vestors in continental Europe. The net credits on current and capital account combined ounted to $135.9 million compared with $107.1 million in 1937 and are larger than in y year since 1923.

Balancing Items of Current and Capital Accounts Between Canada and the United Kingdom, The United States and Other Countries 1934-1938

Net Receipts or Credits (+); Net Payments or Debits (-)

(In millions of dollars)

	Balancing Item of Current Account between Canada and			
	All Countries	United Kingdom	United States	Other Countries
1934	+ 74.8	+ 93.2	- 93.5	+ 75.1
1935	+176.9	+113.9	+ 0.3	+ 62.7
1936	+308.5	+228.7	- 10.7	+ 90.5
1937	+218.2	+176.8	- 55.3	+ 96.7
1938	+180.2	+196.3	-133.4	+117.3

	Balancing Item of Capital Account between Canada and			
	All Countries	United Kingdom	United States	Other Countries
1934	-115.8	+ 98.9	-213.0	- 1.7
1935	-173.5	- 44.1	-139.9	+ 10.5
1936	-253.7	- 28.8	-226.2	+ 1.3
1937	-198.8	- 24.3	-184.9	+ 10.4
1938	-135.0	- 53.2	-100.4	+ 18.6

	Total Net Current and Capital Transactions between Canada and			
	All Countries	United Kingdom	United States	Other Countries
	(Residual Item)			
1934	- 41.0	+192.1	-306.5	+ 73.4
1935	+ 3.0	+ 69.8	-139.6	+ 73.2
1936	+ 54.8	+199.9	-236.9	+ 91.8
1937	+ 19.4	+152.5	-240.2	+107.1
1938	+ 45.2	+143.1	-233.8	+135.9

Long-term changes in the balance of international indebtedness of Canada, ısofar as they are the result of security transactions during 1938, were in the fol-›wing directions:

Holdings of Canadian bonds and stocks in the United Kingdom were reduced by ›th retirement operations and repurchases of Canadian securities by Canada. On the ;her hand, the holdings of Canadian securities in other overseas countries increased. ›st of this demand from Europe was for Canadian stocks. While considerable changes ›ok place in the holdings of Canadian securities in the United States, there were im-›rtant divergent movements of capital. The amount of Canadian bonds held in the United ;ates was reduced by redemptions but a balance of sales by Canada to the United States ı the trade in securities cancelled part of the effects of the retirements upon total ›ldings. United States holdings of Canadian stocks were also increased by the trade in ›curities during the year. In the same period Canadian purchases of United States ›nds were appreciable, while there was a small balance of sales of United States and ıited Kingdom stocks and slight purchases of other foreign securities. Other changes ı international indebtedness in 1938 are more obscure and, being often the result of ıternal changes, will be completely revealed only at a later date.

Estimated Canadian Balance of International Payments

Revised Statement for 1938

(In millions of dollars)

Net Credits (+); Net Debits (-)

	Transactions Between Canada and											
	All Countries			United Kingdom			United States			Other Countries		
	Credits	Debits	Net	Credits	Debits	Net	Credits	Debits	Net	Credits	Debits	Net
A. Current Account of Goods, Gold and Services												
1. Merchandise Trade (Adjusted)	847.1	665.2	+181.9	341.1	120.7	+220.4	277.7	411.8	-134.1	228.3	132.7	+ 95.6
2. Gold (Estimated Net Credits)(1)	156.5	-	+156.5	79.9	-	+ 79.9	64.2	-	+ 64.2	12.4	-	+ 12.4
3. Tourist Expenditures	282.7	121.0	+161.7	8.1	14.6	- 6.5	268.0	101.0	+167.0	6.6	5.4	+ 1.2
4. Interest and Dividends	66.0	317.0	-251.0	0.6	82.9	- 82.3	25.0	226.4	-201.4	40.4	7.7	+ 32.7
5. Freight Transactions n.o.p.	79.6	105.0	- 25.4	23.9	30.1	- 6.2	39.2	55.2	- 16.0	16.5	19.7	- 3.2
6. Miscellaneous Services etc.	23.4	66.9	- 43.5	4.7	13.7	- 9.0	16.5	29.6	- 13.1	2.2	23.6	- 21.4
7. Total Credits and Debits as above ..	1,455.3	1,275.1	+180.2	458.3	262.0	+196.3	690.6	824.0	-133.4	306.4	189.1	+117.3
8. Balancing Item - Difference between Credits and Debits above		180.2			196.3		133.4				117.3	
	1,455.3	1,455.3		458.3	458.3		824.0	824.0		306.4	306.4	
B. Capital Account												
1. New Issues of Canadian Securities sold abroad (including refinancing)	88.6	-)		50.3	-)		38.3	-)		-	-)	
2. Retirements of Canadian Securities owned abroad	-	) - 61.9 150.5)		-	) - 21.3 71.6)		-	) - 40.0 78.3)		-	) - 0.6 0.6)	
3. Sales and Purchases of Outstanding Securities	369.2	340.3	+ 28.9	52.1	64.3	- 12.2	283.5	261.3	+ 22.2	33.6	14.7	+ 18.9
4. Other Capital Movements (Net)	-	102.0	-102.0	-	19.7	- 19.7	-	82.6	- 82.6	0.3	-	+ 0.3
5. Total Credits and Debits as above...	457.8	592.8	-135.0	102.4	155.6	- 53.2	321.8	422.2	-100.4	33.9	15.3	+ 18.6
6. Balancing Item - Direct Estimate of Net Capital Movement	135.0			53.2			100.4				18.6	
	592.8	592.8		155.6	155.6		422.2	422.2		33.9	33.9	
7. Residual Item - Difference between the balancing items of Current and Capital Accounts	45.2											

(1) Includes earmarked gold.

CANADA

DEPARTMENT OF TRADE AND COMMERCE

DOMINION BUREAU OF STATISTICS

INTERNAL TRADE BRANCH

THE CANADIAN BALANCE

OF

INTERNATIONAL PAYMENTS

REVISED STATEMENT, 1939

AND

PRELIMINARY STATEMENT, 1940

Published by Authority of the Hon. James A. MacKinnon, M.P.,
Minister of Trade and Commerce.

OTTAWA

1941

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DEPARTMENT OF TRADE AND COMMERCE
DOMINION BUREAU OF STATISTICS - CANADA
INTERNAL TRADE BRANCH

ominion Statistician:	R. H Coats, LL.D., F.R.S.C., F.S.S. (Hon.)
hief, Internal Trade Branch:	H. Marshall, B.A., F.S.S.
tatistician:	C. D. Blyth, B.A.

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Preliminary Statement for 1940

While the task of analyzing Canada's international receipts and payments as much more complex in 1940 than in previous years and information is not yet complete or some groups of transactions, the preliminary statement just released by the Dominion ureau of Statistics is believed to be sufficiently complete to reveal the broad outlines f the balance of payments during 1940. The statement reveals the fact that the underlyng strength of Canada's balance of payments with the rest of the world as a whole was ven greater than before the war. Her net surplus on current account transactions with ll other countries was $176 million in 1940 compared with $137 million in 1939.

As was to be expected, many of the component items were profoundly influened by the war. Outstanding, of course, was the enormous increase in Canada's exports to he United Kingdom, and an even greater rise in imports from the United States. The atter was due to requirements for the Dominion's own war programme, to the substantial nited States content in terms of materials and new capital equipment of British war urchases in Canada, and to the increased domestic demand for consumption goods from the nited States caused by sharply rising national income.

Financial developments arising from the war have made it necessary to conider Canada's total balance of payments position in terms of two separate divisions; iz., transactions with the sterling area, and transactions with the rest of the world ith which Canada's dealings are on a U.S. dollar basis. In more normal periods, Canada as had a deficiency in current transactions with the United States, which has been overed by her considerably larger surplus with sterling countries. The war has greatly ncreased both the sterling surplus and the deficiency of United States dollars, while t the same time it has interfered with the normal process of offsetting one against the ther, since, because of the United Kingdom's exchange position, sterling is no longer reely convertible into United States dollars. Consequently, this preliminary report ncludes separate statements for Empire (i.e., sterling area) and Non-Empire (i.e., J.S. dollar area) countries as well as for the United Kingdom and the United States. uch regional statements, however, are subject to a wider margin of error than the general tatement of the balance of internatbnal payments.

The first table in this statement compares the current account items for ll Countries and separately for the United Kingdom and the United States in the years 939 and 1940. It should be noted that all amounts are given in Canadian dollars. Comarisons between 1939 and 1940 should, of course, take account of differing exchange rates n the two years.

Current Transactions with the United Kingdom

There was a net credit balance on current account with the United Kingdom f $347 million in 1940, compared with $126 million in 1939, the increase being accounted or chiefly by the rise in exports from $332 million in 1939 to $551 million in 1940. hese figures include exports to the United Kingdom on Canadian account, as, for example, quipment for the Canadian forces in England. Commodity imports from the United Kingdom ere higher than in 1939, but they include goods owned by the Government of the United ingdom and brought into Canada for its own use, (e.g., equipment for air training schools n Canada). Thus, the value of both export and import trade with the United Kingdom is verstated and has been offset by corresponding debit and credit entries under the heading, "All Other Current Transactions."

The decrease in net payments of interest and dividends is explained by epatriations of Canadian securities formerly held in the United Kingdom.

In 1940, there were credit balances for the freight and tourist items hich contrast with debits in 1939. The war, of course, led to the curtailment of tourist isits to the United Kingdom.

The change in the freight item reflects heavier expenditures in Canadian ports by British ships, enhanced revenues of Canadian transportation companies due to increased exports, and the inclusion of some inland freight in export valuations in 1939, whereas in 1940, due to better statistical data, the inland freight could be segregated.

Figures in 1939 and 1940 for "All Other Current Transactions" are not comparable. In 1940, in addition to the normal service items, this category includes substantial amounts on government account; e.g., Dominion government expenditures in the United Kingdom in connection with the Canadian Active Army and United Kingdom expenditures in Canada in connection with the war. There are also included certain offsetting credits and debits in connection with merchandise trade, which are mentioned in the first paragraph of this section.

The statement showing transactions between Canada and the United Kingdom in 1940 does not cover all transactions on United Kingdom account. For example, some merchandise exported on U.K. account was shipped to Egypt and Other Empire Countries and is thus included in the "Other Empire" section of the balance of payments statement.

Current Transactions With Other Empire Countries

A larger credit balance is shown in the current account with Other Empire Countries in 1940 than in 1939. The net balance of approximately $76 million in 1940 is largely attributable to commodity trade, but freight receipts and current government expenditures were also important. As mentioned in the preceding paragraph some of the transactions which are included in the statement for Other Empire Countries are, in fact, on United Kingdom account.

Current Transactions with the United States

Canada's debit balance on current transactions with the United States rose from $89 million in 1939 to $269 million in 1940, due mainly to greatly increased net commodity imports. Imports from that country increased from $472 million in 1939 to $717 million in 1940, while exports rose from $344 million to $424 million.

The value of net exports of non-monetary gold rose from $184 million to $203 million, mainly because of the premium on the U.S. dollar. In terms of quantity, the increase was from 5.1 million ounces in 1939 to 5.3 million ounces in 1940.

Net receipts from tourist trade were $82 million in 1940 as compared with $80 million in 1939. Although there was a sharp drop in receipts from United States tourists, this was offset by the lower expenditures of Canadians visiting the United States due to governmental restrictions on pleasure travel in that country in the latter half of 1940.

There was a small increase in net interest and dividend payments, which was accounted for by the premium on payments of U.S. dollar bond interest. Net interest and dividend payments were $201 million in 1940 as compared with $197 million in 1939. Freight payments to the United States were naturally heavier because of increased imports.

The figures shown in the item, "All Other Current Transactions" are not comparable in the two years because of certain credits which are included in 1940 as an offset to commodity imports from the United States into Canada which were British owned.

Current Transactions with Other Foreign Countries

Net credits from current transactions with OtherForeign Countries were much smaller in 1940 than in 1939, declining from $63 million to $22 million. A contraction in net credits from merchandise trade accounts for most of the reduction. The curtailment of trade with continental Europe and Japan was largely responsible, as this trade formerly produced a substantial credit balance. At the same time, imports from South American countries increased more than exports to that area.

Capital Account Transactions with Empire Countries

Gross capital receipts by Canada from Empire countries totalled $116 million. This amount was made up chiefly of capital expenditures by the United Kingdom on war plants in Canada, but also includes capital receipts by Canada in respect of

ecurities, mortgages, real estate, estates and trusts, insurance transactions, etc.

Apart from $248 million paid for gold which was bought from Great Britain n part settlement of her deficiency with Canada, and which was used in turn to settle art of Canada's deficiency in the United States, Canada's gross capital payments to mpire countries totalled $334 million. A reduction in Empire balances held in Canada, hich repatriation operations late in 1939 had left at an unusually high level at the nd of that year, plus sales of British-owned securities in Canada, plus private retire- ents of Canadian securities held in the United Kingdom, plus capital payments to Empire ountries in respect of direct investments, mortgages, real estate, estates and trusts, nsurance transactions, etc., accounted for $111 million of this total.

The remaining amount of $223 million represents the United Kingdom's esidual requirements for Canadian dollars on current and capital account which were supplied y the Dominion government. Of the total, $141 million was provided by official repatria- ion; i.e., by redemption in advance of maturity of certain Dominion and guaranteed .N.R. bond issues held in the United Kingdom. The rest, amounting to $82 million, was rovided through accumulation of sterling balances by the Foreign Exchange Control Board.

Capital Account Transactions with Non-Empire Countries

Capital payments by Canada to non-Empire countries in 1940 were, of course, ubject to the restrictions imposed by foreign exchange control. In general, payments ere allowed only in the case of maturing contractual commitments, although certain other pecial types of capital transfers were permitted in minor amounts.

Gross capital payments by Canada to non-Empire countries were, therefore, nusually low in 1940, amounting to $141 million. This includes redemptions of securities, ortgages and other types of obligations, and the estimated reduction of non-Empire alances held in Canada, as well as capital payments in connection with real estate, states and trusts, insurance transactions, etc.

Apart from the $248 million of gold received from Great Britain in part ettlement of her deficiency with Canada which was used in turn to settle part of Canada's eficiency with the United States, gross capital credits in respect of non-Empire coun- ries amounted to $167 million. This was accounted for in part by sales of foreign ecurities (and some domestic securities) in the United States market, and by capital eceipts in connection with direct investments, mortgages, real estate, estates and trusts, nsurance transactions, etc. The rest was accounted for by a reduction in Canadian hold- ngs of gold and U.S. dollar balances, and represents the means by which Canada covered er residual deficiency on current and capital account with non-Empire countries.

Notes on Items in 1940 Statement

erchandise Trade

Recorded statistics of merchandise trade have been adjusted for balance of pay- ents purposes to make them conform more closely to financial receipts and payments. De- uctions were made from both exports and imports to remove normal non-commercial items. djustments are also made on account of wheat movements for storage purposes, overvalua- ions of imports, and certain unrecorded exports.

It should be noted, however, that statistics of merchandise trade include certain on-revenue items on government account; e.g., exports of equipment to the Canadian forces broad. Corrections are made for such items by offsetting entries under the heading, All Other Current Transactions."

et Exports of Non-Monetary Gold

This item is the value of "Net Exports of Non-Monetary Gold" as computed by the ank of Canada," and explained on page 152 of the September, 1939, Bank of Canada Statis- ical Summary. Roughly speaking, this figure corresponds to the value of current pro- uction in Canada.

Tourist Expenditures

The estimate of tourist expenditures is based upon a much greater volume of information than in previous years; this was made available through the cooperation of the Customs Division of the Department of National Revenue and the Immigration Branch of the Department of Mines and Resources. Some idea of the improvement in the data for estimation may be gathered from the fact that whereas in 1939 the expenditure sample for motor tourists constituted a fraction of 1 per cent of the numbers, the sample in 1940 was over 80 per cent for Canadian motorists and over 50 per cent for some groups of American motor tourists. The additional information which was obtained in 1940 indicates that previous estimates of the receipts and expenditures on account of tourist trade were too high. Revised estimates for 1939 are shown in the accompanying 1939 statement. These estimates were made by applying 1940 expenditures to the count of tourists for 1939.

Interest and Dividends on Securities

Income received by residents of Canada from foreign securities has been calculated for 1940 from improved records of security holdings. Amounts representing income from British securities are somewhat larger than formerly estimated, while amounts representing income from foreign securities are lower.

Revenue accruing to residents of enemy occupied and proscribed territory from investment in Canada is entered as a debit in the interest and dividend item, and offset by a credit entry in the capital account.

It should be noted that some remittances of income on investments other than securities, for which data were available in 1940 for the first time, have been included in the item, "All Other Current Transactions."

Freight and Shipping

This item includes estimates covering ocean shipping operations, freight paid to United States railways on imports, inland freight earned by Canadian transportation companies carrying exports to the United States border or Canadian ocean ports, revenue received by Canada from intransit traffic, and payments of premiums for marine and war-risk insurance on goods imported to Canada from overseas countries.

The estimate of inland freight to Canadian ocean ports is based on data available from April to December only. Prior to April some freight was included in the merchandise export valuations.

Ocean shipping transactions covered include: freight paid to British or foreign ships for imports, expenditures abroad on account of Canadian ships, payments by Canadian companies for the charter of British or foreign ships, earnings of Canadian ships on exports and on traffic between foreign ports, revenue of Canadian companies from the charter of ships and expenditures in Canada on account of British and foreign ships.

It should be noted that the freight item of the balance of payments represents the entire international exchange of transportation services since statistics of merchandise exports and imports exclude freight charges, with the exception noted above with respect to exports prior to April, 1940.

All Other Current Transactions

This item includes government expenditures, certain entries offsetting movements of merchandise on government account and a wide range of miscellaneous transactions mostly in the field of services.

The cash expenditures of governments in Canada which have been entered as credits in the current account include: pensions paid to residents of Canada by British and foreign governments, normal expenditures of consular, diplomatic and commercial representatives in Canada, external revenue of the Dominion Government, and disbursements in Canada by the United Kingdom and Allied Governments on account of current war expenditures. This latter group of expenditures excludes, of course, payments for merchandise exported from Canada as these credits already appear in the item of merchandise exports.

Cash expenditures of the Dominion Government outside of Canada which appear as debit entries include: payments to pensioners resident outside of Canada, normal external expenditures of various departments, and the expenditures outside of Canada of the Department of National Defence on War Account, other than for goods imported into Canada which appear as merchandise imports.

This item does not include government transactions belonging to the capital account such as official repatriations, changes in official balances, capital expenditures by the United Kingdom Government, etc.

Besides the cash expenditure of governments, this item includes substantial offsets to merchandise movements on government account which appear in merchandise statistics of imports and exports. For example, as a credit entry there is included an amount to offset the import of goods owned by the United Kingdom or Allied Governments for use or processing in Canada. In the case of such imports, an offsetting credit, which is a purely statistical entry, is included. Similarly, to offset the value entered in export statistics of merchandise exported on Canadian Government account, a debit entry has been placed in the statement of transactions with Empire Countries.

This item also covers a heterogeneous range of transactions, which have been consolidated for simplicity in presentation. While a considerable amount of new data on some of these transactions have been secured, the balance of payments for these services as a group in 1940 is not very much different from estimates in previous years, although some have been affected by war conditions. Included in this group are: immigrant remittances, advertising transactions, motion picture royalties, religious and benevolent remittances, including remittances by individuals and organizations connected with the war, and a debit entry offsetting remittances in kind which are recorded in export statistics, capital of immigrants and emigrants, earnings of Canadian residents employed in the United States and United States residents employed in Canada, commercial and financial services, telegraphs and cables, artist and entertainment services, other professional, technical and management services, copyrights, royalties, etc., dues to trade and professional associations, operating expenses of offices and agencies, and other sundry services. This item also includes certain currency adjustments and railway expenditures in the United States of a current character, and new data on remittances of income made available from sources developed in 1940. These remittances cover interest on mortgages and loans, rents, crop share rentals, profits from speculation and certain types of business, income received by Canadians from foreign estates and trusts, etc.

Balancing Item

This is the balancing item between the current and capital accounts, and is a reflection of errors or omissions in the statement since in a perfect balance of payments statement, the net balances in the current account and the capital account would exactly offset one another. Owing to incomplete returns at the time the statement was drawn up, some transactions, mainly intercompany, have not been entered in the statement. There are other factors influencing the statement, which cannot be measured statistically, and, therefore, have not been accounted for. Among these are the changes which have taken place in the manner and period of payment for merchandise. Due to changes in practice since the war, the normal "lag" in international trade between shipments of goods and receipts of payments has been altered to an indeterminable extent.

Revised Statement, 1939

Table 3 presents a revised statement of the balance of payments in 1939. Among the more important revisions are new adjustments to statistics of merchandise exports and importsand revised estimates of tourist expenditures.

Table 1.--Canadian Balance of International Payments
Current Account Transactions, 1939 and 1940

(Millions of Canadian dollars)

	Credits		Debits		Net	
	1939	1940	1939	1940	1939	1940
I. Canada and All Countries -						
Merchandise trade-adjusted	906	1,212	713	1,046	+ 193	+ 166
Net exports of non-monetary gold .	184	203	-	-	+ 184	+ 203
Tourist expenditures	164	128	86	43	+ 78	+ 85
Interest and dividends	57	52	311	306	- 254	- 254
Freight and shipping	87	138	119	132	- 32	+ 6
All other current transactions ...	36	113	68	143	- 32	- 30
TOTALS--Current Account	1,434	1,846	1,297	1,670	+ 137	+ 176
II. Canada and the United Kingdom -						
Merchandise trade-adjusted	332	551	106	158	+ 226	+ 393
Tourist expenditures	7	5	11	2	- 4	+ 3
Interest and dividends	2	2	79	70	- 77	- 68
Freight and shipping	24	60	36	32	- 12	+ 28
All other current transactions ...	6	52	13	61	- 7	- 9
TOTALS--Current Account	371	670	245	323	+ 126	+ 347
III. Canada and the United States -						
Merchandise trade-adjusted	344	424	472	717	- 128	- 293
Net exports of non-monetary gold .	184	203	-	-	+ 184	+ 203
Tourist expenditures	152	122	72	40	+ 80	+ 82
Interest and dividends	27	29	224	230	- 197	- 201
Freight and shipping	46	49	61	78	- 15	- 29
All other current transactions ...	22	42	35	73	- 13	- 31
TOTALS--Current Account	775	869	864	1,138	- 89	- 269
IV. Canada and Other Empire Countries -						
Merchandise trade-adjusted	104	157	71	103	+ 33	+ 54
Tourist expenditures	2	1	2	1	-	-
Interest and dividends	3	1	2	2	+ 1	- 1
Freight and shipping	7	16	3	4	+ 4	+ 12
All other current transactions ...	(1)	11	1	(1)	- 1	+ 11
TOTALS--Current Account	116	186	79	110	+ 37	+ 76
V. Canada and Other Foreign Countries -						
Merchandise trade-adjusted	126	80	64	68	+ 62	+ 12
Tourist expenditures	3	(1)	1	(1)	+ 2	-
Interest and dividends	25	20	6	4	+ 19	+ 16
Freight and shipping	10	13	19	18	- 9	- 5
All other current transactions ...	8	8	19	9	- 11	- 1
TOTALS--Current Account	172	121	109	99	+ 63	+ 22

(1) Less than $500,000.

Table 2.--Estimated Canadian Balance of International Payments

Preliminary Statement, 1940

(Millions of Canadian dollars)

	Credits	Debits	Net
I. Canada and All Countries -			
Current Account			
Merchandise trade-after adjustment	1,212	1,046	+ 166
Net exports of non-monetary gold	203	-	+ 203
Tourist expenditures	128	43	+ 85
Interest and dividends	52	306	- 254
Freight and shipping	138	132	+ 6
All other current transactions	113	143	- 30
TOTALS--Current Account	1,846	1,670	+ 176
Special Gold Transactions(1)	248	248	-
Capital Movements	283	475	- 192
Balancing Item(2)	-	-	+ 16
II. Canada and Empire Countries -			
Current Account			
Merchandise trade-after adjustment	708	261	+ 447
Tourist expenditures	6	3	+ 3
Interest and dividends	3	72	- 69
Freight and shipping	76	36	+ 40
All other current transactions	63	61	+ 2
TOTALS--Current Account - United Kingdom	670	323	+ 347
Other Empire Countries	186	110	+ 76
All Empire Countries	856	433	+ 423
Capital Credits	116	-	+ 116
Sub-total	972	433	+ 539
Special Gold Transactions(1)	-	248	- 248
Capital Debits	-	334	- 334
Balancing Item(2)	-	-	+ 43
III. Canada and Non-Empire Countries -			
Current Account			
Merchandise trade-after adjustment	504	785	- 281
Net exports of non-monetary gold	203	-	+ 203
Tourist expenditures	122	40	+ 82
Interest and dividends	49	234	- 185
Freight and shipping	62	96	- 34
All other current transactions	50	82	- 32
TOTALS--Current Account - United States	869	1,138	- 269
Other Foreign Countries	121	99	+ 22
All Non-Empire Countries	990	1,237	- 247
Capital Debits	-	141	- 141
Sub-total	990	1,378	- 388
Special Gold Transactions(1)	248	-	+ 248
Capital Credits	167	-	+ 167
Balancing Item(2)	-	-	- 27

(1) This represents gold received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

(2) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically such as changes in the timing of payments for goods and services.

Canadian Balance of International Payments

Revised Statement, 1939

Table 3. (Millions of Canadian dollars)

	ALL COUNTRIES			EMPIRE COUNTRIES			NON-EMPIRE COUNTRIES		
	Credits	Debits	Net	Credits	Debits	Net	Credits	Debits	Net
Current Account									
Merchandise Trade--after adjustment	906	713	+ 193	436	177	+ 259	470	536	- 66
Net Exports of Non-Monetary Gold(1)	184	-	+ 184	-	-	-	184	-	+ 184
Tourist Expenditures	164	86	+ 78	9	13	- 4	155	73	+ 82
Interest and Dividends	57	311	- 254	5	81	- 76	52	230	- 179
Freight and Shipping	87	119	- 32	31	39	- 8	56	80	- 24
Other Current Transactions	36	68	- 32	6	14	- 8	30	54	- 24
TOTALS--Current Account	1,434	1,297	+ 137	487	324	+ 163	947	973	- 26
Capital Account									
New Issues of Canadian Securities Sold Outside of Canada	155	)		-	)		155	)	
Retirements of Canadian Securities Owned Outside of Canada		)	- 96		)	- 120		)	+ 24
		251			120			131	
Sales and Purchases of Outstanding Securities	311	239	+ 72	32	38	- 6	279	201	+ 78
Other Transactions in Outstanding Securities	11	2	+ 9	-	-	-	11	2	+ 9
Net Capital Transactions of International Direct Investments, etc.(2)		73	- 73)						
Insurance Transactions, n.o.p.	18	53	- 35)	65	22	+ 43	16	200	- 184
Other Capital Movement, net		33	- 33)						
TOTALS--Capital Account	495	651	- 156	97	180	- 83	461	534	- 73
Balancing Item			+ 19						

(1) "Net Exports of Non-Monetary Gold" includes domestic monetary purchases.

(2) Included in this item are the net movements of funds resulting from the operations of the branches, subsidiaries, etc., of British and foreign companies in Canada; subsidiaries etc., of Canadian companies operating outside of Canada and the net movements of funds resulting from the international transactions of Canadian trust companies. Although the more important current transactions of these concerns, such as dividends, have been included in the current account, various small items of current transactions that are difficult to segregate remain in this item.

CANADA

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DEPARTMENT OF TRADE AND COMMERCE
DOMINION BUREAU OF STATISTICS - CANADA
INTERNAL TRADE BRANCH

Dominion Statistician:	S. A. Cudmore, M.A. (Oxon.) F.S.S., F.R.S.C.
Chief, Internal Trade Branch:	H. Marshall, B.A., F.S.S.
Statistician:	C. D. Blyth, B.A.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

1 9 4 1

The change which has taken place in Canada's international accounts since the start of the war, is revealed in the statement of the Canadian balance of international payments for 1941. Most of the more striking effects of the war, which first appeared in the 1940 statement, are more accentuated in the statement for 1941 because of the expansion in war production and in the other war activities of the Dominion.

Total current credits of $2,455 million exceeded total current debits of $1,977 million by $478 million. This balance compares with credit balances on current account of $144 million in 1940 and $137 million in 1939 and is higher than any previous credit balance in Canada's history. Gross credits on current account increased most and were the highest on record, being $1,021 million greater than in 1939. Gross debits of $1,977 million were at a record level, too, although the increase was less than in the case of credits. Consequently, the net balance on current account transactions with all countries increased very sharply in 1941. These impressive proportions being obtained during the war, are, of course, related to the great growth in national income which has taken place.

Table I. Current Account Between Canada and All Countries
(Millions of dollars)

	1939	Increase 1939 to 1940	1940	Increase 1940 to 1941	1941	Increase 1939 to 1941
Total credits on current account	1,434	335	1,769	686	2,455	1,021
Total debits on current account	1,297	328	1,625	352	1,977	680
Net Credits on current account	+ 137	+ 7	+ 144	+ 334	+ 478	+ 341

From the point of view of exchange and finance, however, the balance of payments is divided into two clearly defined divisions, - the balance of payments between Canada and the sterling area, and the balance of payments between Canada and the rest of the world, with which Canada's dealings are on a U. S. dollar basis. Because of conditions arising from the war, Canada's balance of sterling income over disbursements is no longer freely convertible into United States dollars, whereas before the war, sterling balances were employed in part to cover the definit in United States dollars. Accordingly, separate statements are shown in this report for transactions with Empire Countries and Non-Empire Countries. Insofar as was possible, the statement for Empire Countries represents the sterling area and the statement for Non-Empire Countries represents the United States dollar area. In the case of the balance of payments with the sterling area there has been a greatly expanded surplus

of current credits over debits, while in the balance of payments with the United States dollar area there was, in 1940 and 1941, a growing net deficit on current account. (1)

Current Transactions with the Sterling Area

There was a net credit on current account with the sterling area of $804 million in 1941 compared with $423 million in 1940 and $163 million in 1939. The principal factor contributing to this large credit balance in 1941 was the expenditures by the British Government on war equipment, food and materials produced in Canada. The value of exports to the sterling area, including certain pre-payments for goods in the process of production in 1941, increased from $436 million in 1939 to $699 million in 1940 and $1,098 million in 1941. These figures exclude exports on Canadian account such as equipment for the Canadian army in the United Kingdom. Imports of merchandise from the sterling area increased only moderately, being $177 million in 1939, $236 million in 1940 and $279 million in 1941. Most of the increase was from Empire Countries other than the United Kingdom. Excluded from these imports are goods which are not purchased by Canada such as the contributions in kind made by the Government of the United Kingdom to the Joint Air Training Plan, and the equipment imported for the R. A. F. Special Schools in Canada.

Table II. Current Account Transactions between Canada and the Sterling Area
(Millions of dollars)

	1939	Increase 1939 to 1940	1940	Increase 1940 to 1941	1941	Increase 1939 to 1941
Total credits on current account	487	335	822	499	1,321	834
Debits on current account	324	75	399	118	517	193
Net credits with Sterling Area	+ 163	+ 260	+ 423	+ 381	+ 804	+ 641

Larger disbursements in Canadian ports on account of shipping and payments for inland freight in Canada on the heavy movement of commodities for export also contributed to the increased balance of credits.

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1) In 1942, however, the Minister of Finance has indicated that the deficit would be reduced as a result of increasing sales of munitions to the United States under the Hyde Park Declaration.

"As I informed the house in introducing the United Kingdom War Appropriation Bill on March 18 this year, liquid reserves of gold and United States dollars held by the Foreign Exchange Control Board and the Dominion Government declined by $142 million during 1941. In the first quarter of 1942, there was a marked, though in part a temporary, improvement. As a result, the decline in our liquid reserves for the fiscal year 1941-42 was only about $50 million. This welcome change was due to two factors: purchases of Canadian securities by investors in the United States, a method of obtaining exchange which cannot be depended on for really substantial amounts in view of the limited supply of securities available in Canada payable in United States dollars; and payments for sales of munitions under the Hyde Park agreement including some substantial advance payments. While we have reason to believe that these sales will increase, as new contracts are arranged and as larger deliveries are made under existing contracts, the advance payments are, of course, non-recurring."

"The outlook for the fiscal year, 1942-43, is distinctly more cheerful than the results of the calendar year 1941. We cannot expect, however, the full improvement which took place from January to March to continue. Other unfavourable factors have entered the picture, particularly the adverse effect on the tourist trade of the necessary restrictions on the use of gasoline and rubber and the recent decline in newsprint exports. Nevertheless, I look forward with reasonable assurance to transactions under the Hyde Park agreement being sufficient to safeguard our exchange position during the present fiscal year."

See annual Financial Statement of the Minister of Finance, House of Commons Debates June 23, 1942, pages 3,888 and 3,889.

"Interest and dividend payments" and "all other current transactions" oth produced substantial net debits. While total interest and dividends paid on ritish investments in Canada decreased in 1941, the reductions in interest paid on anadian bonds repatriated from the United Kingdom were partly offset by larger ividend payments. The item "All Other Current Transactions" shows an excess of ebits over credits of $34 million. The expenditures of the Dominion Government in onnection with the maintenance of the Canadian armed forces overseas constitute the ulk of the debits in this item. Among the principal credits in this item are the xpenditures on air training in Canada by the British, Australian and New Zealand overnments and other expenditures on services in Canada connected with the war, by llied Governments. The expenditures of Canadian travellers in other parts of the mpire and of Empire travellers in Canada offset each other.

The current account with the sterling area is shown in Sections B and of Table VII divided into transactions between Canada and the United Kingdom and anada and other Empire Countries. While an analysis of official expenditures on war roduction has enabled this division to be made quite complete for 1941, it is still ot entirely definitive. In 1940 merchandise exported on British account and shipped o Egypt and other Empire Countries is included in the "Other Empire" section of the tatement.

urrent Transactions with the United States Dollar Area

Canada's debit balance on current account with the United States dollar rea rose from $26 million in 1939 to $279 million in 1940 and $326 million in 1941. he growth in the debit balance with the United States alone has been from $89 million n 1939 to $301 million in 1940 and $330 million in 1941. The pre-war credit balance n current transactions with other foreign countries has shrunk from $63 million in 939 to $22 million in 1940 and $4 million in 1941.

able III. Current Account Transactions between Canada and the United States Dollar Area

(Millions of dollars)

	1939	Increase 1939 to 1940	1940	Increase 1940 to 1941	1941	Increase 1939 to 1941
ross credits on current account	947	Nil	947	187	1,134	187
ross debits on current account	973	253	1,226	234	1,460	487
et debits on current account with U.S.$ area	- 26	- 253	- 279	- 47	- 326	- 300

The principal factor in the growth of the debit balance with the United tates dollar area has been the great expansion in imports of merchandise from the nited States. Imports from the United States of merchandise purchased by Canada ncreased from $472 million in 1939 to $702 million in 1940 and $910 million in 1941. hese figures exclude goods imported from the United States on British or other allied ccount which are not paid for by Canada. The major element in these increased equirements of United States dollars naturally arises from the program of war pro- luction. While direct purchases in the United States of aircraft and other equipment or the armed services have been substantial, there are even heavier disbursements of nited States dollars for materials, fuel, capital equipment and component parts equired for the war production program. An important part of these United States ollar requirements arises from the United States dollar content of production in anada for the United Kingdom. There have also been increased demands for civilian goods rom the United States resulting from the high level of incomes.

Exports to the United States dollar area increased from $470 million in 939 to $503 million in 1940 and $634 million in 1941. The increase in exports to the nited States alone was greater than this rise of $164 million; with the loss of uropean and Oriental markets, exports to Other Foreign Countries declined from $126 illion in 1939 to $79 million in 1940 and $68 million in 1941. Only a very small art of the exports to the United States in 1941 represents munitions or other war roduction sold as a result of the Hyde Park Declaration of April 1941. Exports esulting from the Declaration did not become substantial until early in 1942.[x]

[x] See footnote - page 2.

The prepayments and capital assistance received in this connection in 1941 have been shown as credits in the capital account.

The $204 million received from net exports of non-monetary gold in 1941 is about the same value as in 1940. Most of the increased receipts in these two years over the $184 million received in 1939, is due to the premium on United States dollars.

Net receipts from the tourist trade were $87 million in 1941 compared with $55 million in 1940. While part of this increase was because of heavier expenditures by United States tourists in Canada, the larger part was due to the decline in Canadian expenditures in the United States which in 1941 were less than one-half of the total in 1940. This was partly the result of the operation of the official restrictions on pleasure travel throughout a full year. The comparability of the estimates of tourist expenditures in 1939 is discussed in the statistical note on this subject.

Net payments on account of interest and dividends declined to $172 million in 1941 from $190 million in 1940. Most of this drop is due to a reduction in the total dividends paid by Canadian companies to shareholders in the United States dollar area. A smaller part reflects increased income from Canadian investments in the United States, particularly from direct investments. Interest on Canadian bonds and debentures held in the United States dollar area remained at about the same level in 1940 and 1941.

Net payments on account of freight and shipping increased sharply from $34 million in 1940 to $65 million in 1941. Freight on coal and other commodities imported from the United States was heavier because of the growth in imports. Payments connected with shipping were also much larger.

All other current transactions gave rise to a smaller balance of debits in 1941 than in 1940. As unusual transactions which appear irregularly are included in this item, the composition varies each year. One factor tending to reduce the debit balance in 1941 is the inclusion of Newfoundland's balance of United States dollar receipts which were augmented in 1941 by the United States Government's expenditures on bases in Newfoundland.

CAPITAL ACCOUNT TRANSACTIONS WITH EMPIRE COUNTRIES

Gross capital receipts by Canada from Empire countries totalled $181 million in 1941. The major part of this amount represents capital expenditures in Canada by the Government of the United Kingdom. Payments for fixed capital invested in wholly or jointly owned government companies and capital assistance to private companies, and capital invested in air training schools, are included. Capital received by Canada in respect of estates and trusts, claims received for the loss of vessels and other insurance transactions, make up most of the remainder.

Gross capital debits amounted to $990 million in 1941. Of this amount, $73 million represents privately financed capital payments by Canada and declines in the Canadian dollar balances of the sterling area. Purchases of securities, private retirements of securities, insurance company transactions, repayments of mortgages and loans and payments connected with estates and trusts make up most of this $73 million.

The remaining amount of $917 million represents the residual requirements of the United Kingdom for Canadian dollars on current and capital account which were supplied by the Dominion Government. Of this total, $189 million was provided by official repatriation, i.e., by the redemption in advance of maturity of certain Dominion, provincial and Dominion guaranteed C. N. R. bond issues, held in the United Kingdom. The rest, amounting to $728 million, was provided through the accumulation of sterling balances by the Foreign Exchange Control Board. By this action, the Canadian government ensured that the United Kingdom would be able to continue to buy the food, materials, munitions and war supplies required for the prosecution of the war.

Most of the accumulation of sterling was, in 1942, converted into a Canadian dollar loan to the British Government of $700 million. The remainder was used mainly for the repatriation of Dominion and Canadian National Railway securities formerly held by British investors. (2)

(2) The speech by the Minister of Finance in the House of Commons on the introduction of the Bill providing for a gift and a loan to the United Kingdom describes Canada's financial relations with the United Kingdom since the start of the war. (House of Commons Debates, March 18th, 1942).

In 1940, part of the deficit of the sterling area in Canada had been settled by means of gold, which in turn was used in settling Canada's deficiency with the United States, but no gold has been received from the United Kingdom since December 1940.

CAPITAL TRANSACTIONS WITH NON-EMPIRE COUNTRIES

Capital payments by Canada to non-Empire countries, are, of course, subject to the restrictions imposed by foreign exchange control. In general, payments were allowed only in the case of maturing contractual commitments, although certain other types of capital transfers were permitted in minor amounts.

Gross capital payments to non-Empire countries declined from $141 million in 1940 to $73 million in 1941. Retirements of Canadian bonds and debentures held in the United States and repayments of mortgages, loans and advances and other contractual obligations represent the major part of the total. Debits connected with insurance transactions make up most of the remainder.

Capital credits with non-Empire countries totalled $385 million in 1941 compared with $167 million in 1940. Of the total capital credits in 1941, $229 million was received from such sources as sales of securities, capital advances, mortgages, real estate, insurance transactions, etc. Imports of capital from sales of outstanding securities to the United States was the largest single source of these credits. Sales of outstanding Canadian securities in United States markets were substantial. In addition, there were sales of domestic securities for Canadian dollars of some proportions. At the same time, the private liquidation of Canadian holdings of United States and foreign securities through sales and retirements continued. An important source of capital credits resulted from the Hyde Park Declaration of April 1941 in the form of prepayments and capital advances in connection with orders placed.

Capital credits also originated in various increases in other forms of United States investments in Canada, and decreases in other forms of Canadian owned assets in the United States and elsewhere. These credits were in connedtion with direct investments, insurance transactions, estates and trusts, real estate, short-term financing, etc. There were also capital credits originating in changes in private balances and in the short-term position of firms.

The remaining part of the total capital credits, $156 million, was accounted for by a reduction of $142 million (United States) in Canada's official reserves of gold and United States dollars, and represents the means by which Canada covered her residual deficiency on current and capital account with non-Empire countries in 1941.

In 1942, as the Minister of Finance indicated in his Budget speech on June 23rd, 1942, the position with respect to Canada's official reserves has improved, as a result of sales of munitions to the United States under the Hyde Park Declaration, and considerable purchases of Canadian securities by American investors.

STATISTICAL NOTES

Merchandise Trade

While export and import statistics are the principal source used for this item, the credits for merchandise trade shown for the United Kingdom reflect British payments in Canada for munitions and war supplies which are paid for through official channels rather than the value of goods exported during the year 1941. The trade statistics have also been adjusted for balance of payments purposes to bring them more into conformity with payments in the two currency areas concerned. Trade between Canada and Newfoundland has also been excluded. Adjustments are also made on account of wheat and other grain movements for storage purposes, and on account of the over-valuation of imports.

Exports of merchandise on Canadian account, and imports of merchandise for the account of British or Allied Governments have been excluded. The exports thus excluded, have, for the most part, represented exports of equipment and supplies for the use of the Canadian forces overseas. Among the imports which have been deducted, are imports of goods which the British Government has shipped to Canada from the United Kingdom as a part of its contribution in kind to the Joint Air Training Plan

or equipment and supplies for the R. A. F. Special Schools in Canada. Imports from the United States which have been deducted are in the main, imports of aircraft and other classes of equipment for British or Allied organizations in Canada, which are not paid for by Canada. It should be noted that this treatment of these special merchandise movements which do not involve exchange transactions is different from the treatment followed in the preliminary statement of the balance of payments for 1940 which was issued in 1941. In that statement, these movements of merchandise were left in the merchandise trade and were offset by corresponding entries under the heading "All Other Current Transactions." The statement for 1940 shown in the present report, has been revised by treating these merchandise movements in the manner described above for 1941.

As a result of this treatment, the merchandise item is more representative of ultimate payments for merchandise than is the physical movement of the goods in these special cases. Generally, however, there is still the factor of the difference between the time of payment and the time of export or import for which no adjustments have been made, with the exception of the group of payments for munitions and war supplies by the United Kingdom, mentioned above.

Net Exports of Non-Monetary Gold

This item is the value of "Net Exports of Non-Monetary Gold" as computed by the Bank of Canada and explained on page 152 of the September 1939 Bank of Canada Statistical Summary. This figure corresponds roughly to the value of current production in Canada.

Tourist Expenditures

Estimates of tourist expenditures have been greatly improved in recent years. Through the co-operation of the Customs Division of the Department of National Revenue and the Immigration Branch of the Department of Mines and Resources, with the Dominion Bureau of Statistics, new methods of estimating tourist expenditures, first introduced in 1940, have resulted in a greater volume of data than was formerly available. In 1941, a more extensive organization of tourist statistics procedure was undertaken. Progress was made especially in the estimation of the expenditures of automobile tourists. A more uniformly classified count was obtained as a basic record of traffic. In addition, larger and more representative samples of tourist expenditures were collected. In 1941, 76% of all the United States motorists entering Canada on a Travellers' Vehicle Permit reported their total expenditures in Canada. At the same time, a sample of approximately 25% was obtained from short-term local United States tourists crossing into Canada. Virtually all of the expenditures of Canadian motorists in the United States were also covered by a sample which exceeded 95% of the total traffic.

The estimates of expenditures in 1939 which are shown are estimates which were revised in 1940, whereas the estimates for 1940, as well as for 1941, reflect the new procedure developed in 1941. The increased information gathered in 1941 discloses that further revisions are necessary in the estimates of expenditures for 1939 in order to make them comparable with the figures for 1940 and 1941. The extent to which the expenditures in 1939 should be reduced has not yet been determined.

Interest and Dividends on Securities

This item is limited to interest on bonds and debentures and dividends paid on stock. Some remittances of income on investments other than securities, for which data are available for 1940 and 1941 for the first time, have been included in the item "All Other Current Transactions".

Revenue accruing to residents of enemy occupied and proscribed territory from investments in Canada, is entered as a debit in the interest and dividend item, and offset by a credit entry in the capital account.

Freight and Shipping

This item includes estimates covering ocean shipping operations, freight paid to United States railways on imports, inland freight earned by Canadian transportation companies carrying exports to the United States border or Canadian ocean ports, revenue received by Canada from in-transit traffic, and payments for marine and war-risk insurance on goods imported into Canada from overseas. The accounts between the two currency areas have been adjusted to allow for the U. S. dollar cost of prepaid freight on exports to the sterling area.

Ocean shipping transactions covered include: freight paid to British or foreign ships on imports, expenditures abroad on account of Canadian ships, payments by Canadian companies for the charter of British or foreign ships, earnings of Canadian ships on exports and on traffic between foreign ports, revenue of Canadian companies from the charter of ships and expenditures in Canada on account of British and foreign ships. The latter group of expenditures rose sharply in 1941 over the level of previous years.

All Other Current Transactions

This item includes government expenditures, a wide range of miscellaneous transactions mostly in the field of services, and some unusual transactions which have occurred since the war, and which are not readily classified in any other item. In comparisons of this item from one year to another, its varied composition should be taken into consideration.

Government expenditures are more important in 1941 than in previous years and represent the bulk of the item in the account with Empire Countries. The expenditures of the Dominion Government in connection with the maintenance of the Canadian armed forces overseas is the most important part of the Government expenditures among the debits, and the expenditures of the British Government on air training and other wartime activities in Canada, and the expenditures of Australia and New Zealand on air training are the most important among the credit entries for Government expenditures.

Payments by the Canadian Government for imports of goods and by the British or Allied governments for goods exported, are, of course, not included in this item as they are part of the item "Merchandise Trade". Nor does this item include government transactions belonging to the capital account such as official repatriations, changes in official balances and capital expenditures by the United Kingdom Government.

Among the miscellaneous transactions which have been consolidated into this item are, immigrant remittances, religious and benevolent remittances, war funds and other private remittances to the armed forces overseas, motion picture and other royalties, earnings of Canadian residents employed in the United States and United States residents employed in Canada, commercial and financial services, telegraph and cable, professional, technical and management services, operating expenses of offices and agencies, and other sundry services.

The item also includes miscellaneous remittances of income for which data first became available from sources developed in 1940. These remittances cover interest on mortgages and loans, rents, crop share rentals, profits from speculation and certain types of business, income received by Canadians from foreign estates and trusts, etc.

Also included are variable transactions such as Newfoundland's balance of United States dollar receipts which in 1941 were heavier than usual owing to the expenditures of the United States Government on bases in Newfoundland.

As described in the notes on "Merchandise Trade" offsetting entries to exports of merchandise on Canadian account and imports of merchandise on British or Allied Government account originally included in this item in the preliminary statement for 1940, have been excluded from the present statements for both 1940 and 1941.

Balancing Item

This is a balancing item between the current and capital accounts, and is a reflection of errors or omissions in the statements since in a perfect balance of payments statement, the net balances in the current account and the capital account would exactly offset one another. In the years 1940 and 1941 this relationship exists in the accounts with the Empire and the Non-Empire as well as in the statement with all countries due to the existence of exchange control. In 1939 this relationship only applies to the statement for all countries since in the period before exchange control balances in the account with sterling area countries were freely convertible into United States dollars.

ble IV - ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS
(Preliminary Statement 1941)

(Millions of Canadian $)

	Credits	Debits	Net
Canada and All Countries:			
Current Account:			
Merchandise trade - after adjustment	1,732	1,264	+ 468
Net exports of non-monetary gold	204	-	+ 204
Tourist expenditures	108	21	+ 87
Interest and dividends	60	296	- 236
Freight and shipping	185	167	+ 18
All other current transactions	166	229	- 63
Totals - Current Account	2,455	1,977	+ 478
Capital Movements	566	1,063	- 497
Balancing Item (1)	19	-	+ 19
	3,040	3,040	
Canada and Empire Countries			
Current Account			
Merchandise trade-after adjustment	1,098	279	+ 819
Tourist expenditures	3	3	-
Interest and dividends	5	69	- 64
Freight and shipping	119	36	+ 83
All other current transactions	96	130	- 34
Totals - Current Account-United Kingdom	1,093	360	+ 733
Other Empire Countries	228	157	+ 71
All Empire Countries	1,321	517	+ 804
Capital Movements	181	990	- 809
Balancing Item (1)	5	-	+ 5
	1,507	1,507	
Canada and Non-Empire Countries			
Current Account			
Merchandise trade-after adjustment	634	985	- 351
Net exports of non-monetary gold	204	-	+ 204
Tourist expenditures	105	18	+ 87
Interest and Dividends	55	227	- 172
Freight and shipping	66	131	- 65
All other current transactions	70	99	- 29
Totals-Current Account-United States	1,042	1,372	- 330
Other Foreign Countries	92	88	+ 4
All Non-Empire Countries	1,134	1,460	- 326
Capital Movements	385	73	+ 312
Balancing Item (1)	14	-	+ 14
	1,533	1,533	

(1) This balance item reflects possible errors and the omission of certain factors which cannot be measured statistically.

Table V - ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS
Revised Statement, 1940

(Millions of Canadian $)

	Credits	Debits	Net
A. Canada and all Countries			
Current Account			
Merchandise trade-after adjustment	1,202	1,006	+ 196
Net exports of non-monetary gold	203	-	+ 203
Tourist expenditures	101	43	+ 58
Interest and dividends	52	311	- 259
Freight and shipping	138	132	+ 6
All other current transactions	73	133	- 60
Totals - Current account	1,769	1,625	+ 144
Special Gold Transactions (1)	248	248	-
Capital Movements	283	475	- 192
Balancing Item (2)	48	-	+ 48
B. Canada and Empire Countries			
Current Account			
Merchandise trade-after adjustment	699	236	+ 463
Tourist expenditures	6	3	+ 3
Interest and dividends	3	72	- 69
Freight and shipping	76	36	+ 40
All other current transactions	38	52	- 14
Totals - Current account-United Kingdom	636	289	+ 347
Other Empire Countries	186	110	+ 76
All Empire Countries	822	399	+ 423
Special Gold Transactions (1)	-	248	- 248
Capital Movements	116	334	- 218
Balancing Item (2)	43	-	+ 43
C. Canada and Non-Empire Countries			
Current Account			
Merchandise trade-after adjustment	503	770	- 267
Net exports of non-monetary gold	203	-	+ 203
Tourist expenditures	95	40	+ 55
Interest and dividends	49	239	- 190
Freight and shipping	62	96	- 34
All other current transactions	35	81	- 46
Totals - Current account-United States	827	1,128	- 301
Other Foreign Countries	120	98	+ 22
All Non-Empire Countries	947	1,226	- 279
Special Gold Transactions (1)	248	-	+ 248
Capital Movements	167	141	+ 26
Balancing Item (2)	5	-	+ 5

(1) This represents gold received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

(2) This balance item reflects possible errors and the omission of certain factors which cannot be measured statistically.

TABLE VII. CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1939, 1940 and 1941

(Millions of Canadian Dollars)

	CREDITS			DEBITS			NET (CREDITS+) (DEBITS-)		
	1939	1940	1941	1939	1940	1941	1939	1940	1941
A. CANADA AND ALL COUNTRIES									
Current Account -									
Merchandise trade-after adjustment ..	906	1,202	1,732	713	1,006	1,264	+ 193	+ 196	+ 468
Net exports of non-monetary gold	184(a)	203	204	-	-	-	+ 184	+ 203	+ 204
Tourist expenditures	164	101	108	86	43	21	+ 78	+ 58	+ 87
Interest and dividends	57	52	60	311	311	296	- 254	- 259	- 236
Freight and shipping	87	138	185	119	132	167	- 32	+ 6	+ 18
All other current transactions	36	73	166	68	133	229	- 32	- 60	- 63
TOTALS - Current Account	1,434	1,769	2,455	1,297	1,625	1,977	+ 137	+ 144	+ 478
Special Gold Transactions (1)	2	248	-	2	248	-	-	-	-
Capital Movements	495	283	566	651	475	1,063	- 156	- 192	- 497
Balance Item (2)	-	-	-	-	-	-	+ 19	+ 48	+ 19
B. CANADA AND EMPIRE COUNTRIES									
Current Account -									
Merchandise trade-after adjustment ..	436	699	1,098	177	236	279	+ 259	+ 463	+ 819
Tourist expenditures	9	6	3	13	3	3	- 4	+ 3	-
Interest and dividends	5	3	5	81	72	69	- 76	- 69	- 64
Freight and shipping	31	76	119	39	36	36	- 8	+ 40	+ 83
All other current transactions	6	38	96	14	52	130	- 8	- 14	- 34
TOTALS - Current Account -									
United Kingdom	371	636	1,093	245	289	360	+ 126	+ 347	+ 733
Other Empire Countries	116	186	228	79	110	157	+ 37	+ 76	+ 71
All Empire Countries	487	822	1,321	324	399	517	+ 163	+ 423	+ 804
Capital Credits	97	116	181	-	-	-	+ 97	+ 116	+ 181
Sub-Total	584	938	1,502	324	399	517	+ 260	+ 539	+ 985
Special Gold Transactions (1)	-	-	-	2	248	-	- 2	- 248	-
Capital Debits	-	-	-	180	334	990	- 180	- 334	- 990
Balancing Item (2)	-	-	-	-	-	-	(2)	+ 43	+ 5

See footnotes page 11.

(Millions of Canadian Dollars)

	CREDITS			DEBITS			NET (CREDITS+) (DEBITS-)		
	1939	1940	1941	1939	1940	1941	1939	1940	1941
C. CANADA AND NON-EMPIRE COUNTRIES									
Current Account -									
Merchandise trade-after adjustment	470	503	634	536	770	985	- 66	- 267	- 351
Net exports of non-monetary gold ..	184	203	204	-	-	-	+ 184	+ 203	+ 204
Tourist expenditures	155	95	105	73	40	18	+ 82	+ 55	+ 87
Interest and dividends	52	49	55	230	239	227	- 178	- 190	- 172
Freight and shipping	56	62	66	80	96	131	- 24	- 34	- 65
All other current transactions	30	35	70	54	81	99	- 24	- 46	- 29
TOTALS - Current Account -									
United States	775	827	1,042	864	1,128	1,372	- 89	- 301	- 330
Other Foreign Countries	172	120	92	109	98	88	+ 63	+ 22	+ 4
All Non-Empire "	947	947	1,134	973	1,226	1,460	- 26	- 279	- 326
Capital Debits	-	-	-	534	141	73	- 534	- 141	- 73
Sub-Total	947	947	1,134	1,507	1,367	1,533	- 560	- 420	- 399
Special Gold Transactions (1)	2	248	-	-	-	-	+ 2	+ 248	-
Capital Credits	461	167	385	-	-	-	+ 461	+ 167	+ 385
Balancing Item (2)	-	-	-	-	-	-	(2)	+ 5	+ 14

(a) "Net Exports of Non-Monetary Gold" includes domestic monetary purchases.

(1) This represents gold received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

(2) This balance item reflects possible errors and the omission of certain factors which cannot be measured statistically, such as changes in the timing of payments for goods and services. In the period of 1939 before exchange control, it reflects multilateral settlements in tables II and III.

TABLE VII. CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

CURRENT ACCOUNT TRANSACTIONS, 1939, 1940 and 1941

(Millions of Canadian dollars)

	CREDITS			DEBITS			NET (CREDITS+) (DEBITS-)		
	1939	1940	1941	1939	1940	1941	1939	1940	1941
A. CANADA AND ALL COUNTRIES									
Merchandise trade-adjusted	906	1,202	1,732	713	1,006	1,264	+ 193	+ 196	+ 468
Net exports of non-monetary gold	184	203	204	-	-	-	+ 184	+ 203	+ 204
Tourist expenditures	164	101	108	86	43	21	+ 78	+ 58	+ 87
Interest and dividends	57	52	60	311	311	296	- 254	- 259	- 236
Freight and shipping	87	138	185	119	132	167	- 32	+ 6	+ 18
All other current transactions	36	73	166	68	133	229	- 32	- 60	- 63
TOTALS - Current Account	1,434	1,769	2,455	1,297	1,625	1,977	+ 137	+ 144	+ 478
B. CANADA AND THE UNITED KINGDOM									
Merchandise trade-adjusted	332	542	914	106	133	137	+ 226	+ 409	+ 777
Tourist expenditures	7	5	2	11	2	2	- 4	+ 3	-
Interest and dividends	2	2	4	79	70	67	- 77	- 68	- 63
Freight and shipping	24	60	110	36	32	28	- 12	+ 28	+ 82
All other current transactions	6	27	63	13	52	126	- 7	- 25	- 63
TOTALS - Current Account	371	636	1,093	245	289	360	+ 126	+ 347	+ 733
C. CANADA AND THE UNITED STATES									
Merchandise trade-adjusted	344	424	566	472	702	910	- 128	- 278	- 344
Net exports of non-monetary gold	184	203	204	-	-	-	+ 184	+ 203	+ 204
Tourist expenditures	152	95	104	72	40	18	+ 80	+ 55	+ 86
Interest and dividends	27	29	39	224	235	223	- 197	- 206	- 184
Freight and shipping	46	49	64	61	78	131	- 15	- 29	- 67
All other current transactions	22	27	65	35	73	90	- 13	- 46	- 25
TOTALS - Current Account	775	827	1,042	864	1,128	1,372	- 89	- 301	- 330

TABLE VII. CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

CURRENT ACCOUNT TRANSACTIONS, 1939, 1940 and 1941. - Con.

(Millions of Canadian dollars)

	CREDITS			DEBITS			NET (CREDITS+) (DEBITS-)		
	1939	1940	1941	1939	1940	1941	1939	1940	1941
D. CANADA AND OTHER EMPIRE COUNTRIES									
Merchandise trade-adjusted	104	157	184	71	103	142	+ 33	+ 54	+ 42
Tourist expenditures	2	1	1	2	1	1	-	-	-
Interest and dividends	3	1	1	2	2	2	+ 1	- 1	- 1
Freight and shipping	7	16	9	3	4	8	+ 4	+ 12	+ 1
All other current transactions	(1)	11	33	1	(1)	4	- 1	+ 11	+ 29
TOTALS - Current Account	116	186	228	79	110	157	+ 37	+ 76	+ 71
E. CANADA AND OTHER FOREIGN COUNTRIES									
Merchandise trade-adjusted	126	79	68	64	68	75	+ 62	+ 11	- 7
Tourist expenditures	3	(1)	1	1	(1)	(1)	+ 2	-	+ 1
Interest and dividends	25	20	16	6	4	4	+ 19	+ 16	+ 12
Freight and shipping	10	13	2	19	18	(2)	- 9	- 5	+ 2
All other current transactions	8	8	5	19	8	9	- 11	- -	- 4
TOTALS - Current Account	172	120	92	109	98	88	+ 63	+ 22	+ 4

(1) Less than $500,000

(2) Included in amount shown for United States.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table VIII. REVISED STATEMENT 1937

(Millions of dollars)

	Credits	Debits	Net
Current Account -			
Merchandise trade-after adjustment	1,009	776	+ 233
Net exports of Non-Monetary Gold	145	-	+ 145
Tourist expenditures (1)	185	95	+ 90
Interest and dividends	79	325	- 246
Freight and shipping	112	137	- 25
All other current transactions	25	64	- 39
Totals - Current Account	1,555	1,397	+ 158
Capital Movements	620	819	- 199
Balancing Item (2)	41		+ 41
	2,216	2,216	

Table IX. REVISED STATEMENT 1938

(Millions of dollars)

	Credits	Debits	Net
Current Account -			
Merchandise trade-after adjustment	847	649	+ 198
Net exports of Non-Monetary Gold	160	-	+ 160
Tourist expenditures (1)	163	94	+ 69
Interest and dividends	66	317	- 251
Freight and shipping	80	105	- 25
All other current transactions	23	67	- 44
Totals - Current Account	1,339	1,232	+ 107
Capital Movements	458	593	- 135
Balancing Item (2)	28		+ 28
	1,825	1,825	

Table X. REVISED STATEMENT 1939

(Millions of dollars)

	Credits	Debits	Net
Current Account -			
Merchandise trade-after adjustment	906	713	+ 193
Net exports of Non-Monetary Gold	184	-	+ 184
Tourist expenditures (1)	164	86	+ 78
Interest and dividends	57	311	- 254
Freight and shipping	87	119	- 32
All other current transactions	36	68	- 32
Totals - Current Account	1,434	1,297	+ 137
Capital Account	495	651	- 156
Balancing Item (2)	19		
	1,948	1,948	

(1) Subject to further revision.
(2) This balance item reflects possible errors and the omission of certain factors which cannot be measured statistically.

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Minister of Trade and Commerce.

CANADA

DEPARTMENT OF TRADE AND COMMERCE

DOMINION BUREAU OF STATISTICS

INTERNATIONAL PAYMENTS BRANCH

THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1937-1942, REVISED STATEMENTS, 1937-1941, AND PRELIMINARY STATEMENT, 1942.

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CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

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INTERNATIONAL PAYMENTS BRANCH

Dominion Statistician: S. A. Cudmore, M.A. (Oxon.), F.S.S., F.R.S.C.
Chief, International Payments Branch: C. D. Blyth, B. A.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Included with the statement of the Canadian balance of international payments for 1942 are revised statements for each year from 1937 to 1941. Comparisons of transactions during the period from 1937 to 1942 with the principal countries and groups of countries are shown in tables I to VII and separate statements for each year are presented in tables VIII to XIII.

When the statements for the pre-war years are contrasted with the three wartime years, the changes in the size and structure of the balance of payments during the war are brought more clearly into relief. As the comparison shows, the wartime developments have, in many respects, been an accentuation of a pattern which was typical of Canada's international accounts during the pre-war years. In each year there have been credit balances in Canada's current account with Empire Countries and debit balances on current account with the United States, and with the non-Empire area as a whole, also, with the one exception of 1937 when there was a small credit balance with all non-Empire countries. But underlying the similarity in structure, however, have been the outstanding differences in the mechanism of making international settlements which have been at the core of the financial problems arising out of developments in international payments during the war.

Before the war, particularly in the trade between the British Commonwealth of Nations and the United States, free exchange markets were the characteristic channel of international settlements between the principal trading nations of the world. Canada's international accounts provide an excellent example of how the system of multilateral settlements operated. In the years before the war Canada's balance of sterling income was freely convertible into United States dollars so that the Dominion was able to settle the deficit arising out of commercial and financial relations with the United States.

The sources of the sterling income were the substantial credit balances, shown in the statements of transactions with Empire countries, which mainly originated from Canadian exports to the United Kingdom. The factors contributing to the current deficits with the United States were the debit balances arising for merchandise trade, interest and dividends, freight and other services which were only partly offset by credits from gold and tourist expenditures. In addition to the current deficits with the United States there were large debits on capital account. In part offsetting these debit balances arising from current and capital transactions with the United States were substantial credit balances in each of the pre-war years from transactions with other foreign countries.

The system of multilateral settlements which operated before the war provided the mechanism by which the international balances described above were settled. Triangular settlements such as those arising from Canada's trade with the United Kingdom and the United States were a basic part of the frame work of world trade and had the effect of broadening the sphere of trading between nations by going far beyond the limited scope of bilateral trade.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

The war, however, has interrupted the operation of the system of multilateral settlements by creating conditions under which sterling is no longer freely convertible into United States dollars. In addition, the current accounts of the belligerent nations have become distorted by wartime demands which have produced greatly augmented current balances for which new methods of settlement have had to be devised. In the case of Canada the new conditions have produced problems with respect to the balances of payments with both the sterling area and the non-sterling area.

With the sterling area, the problem has been one of finding means of financing the growing British shortage of Canadian dollars as the needs of the United Kingdom for Canadian munitions, food and raw materials increased to unprecedented proportions. In the earlier years of the war, this shortage was principally met by the Canadian government repatriating Canadian securities owned in the United Kingdom and by the accumulation of sterling balances by the Foreign Exchange Control Board. Some settlements have also been effected by purchases of gold from the United Kingdom which has, in turn, been sold in the United States to settle Canadian deficits there. In 1942, however, besides some additional repatriations, a new method of meeting the growing needs of the United Kingdom for Canadian dollars was introduced when a gift of one billion dollars was made to the government of the United Kingdom. In the same year the major part of the accumulation of sterling balances by Canada was converted into an interest-free loan of $700 million to the United Kingdom. In 1943 a further development in the methods of financing the wartime needs of the Allied Nations was the appropriation by the Canadian Parliament of one billion dollars for Mutual Aid, for the production and transfer of Canadian war supplies to the United Nations. More details on the capital transactions with the sterling area will be found in Table 3 accompanying the comments on the capital transactions in 1942.

In the case of the balance of payments with Non-Empire countries, the central problem has also been one of scarcity - in this case a Canadian shortage of United States dollars. The customary deficits in Canada's current account with the United States have been greatly augmented by the war, principally because of the rapid rise in Canadian imports from the United States. At the same time, net credits from other foreign countries whose currencies are convertible into United States dollars have sharply contracted with the decline in exports to Continental Europe and Asia.

Since, during the war period, the deficits incurred with the United States dollar area have had to be settled with United States dollars, it has been necessary to conserve United States dollars for the more essential purposes of the war, and to develop new sources of United States dollars. Exchange control with the control of capital movements has provided the principal means of conserving United States dollars. Government measures have also limited expenditures on Canadian pleasure travel and non-essential commodities in Non-Empire countries. As a result of the agreements entered into at Hyde Park, new sources of United States dollars were produced with the sale of munitions on a large scale to the United States Government and further development of the production of raw materials in Canada. The sale in the United States of gold and United States dollars purchased from the United Kingdom, has also been a factor in meeting deficits in the United States. Another factor of increasing importance in aleviating Canada's shortage of United States dollars has been the growing volume of imports of capital arising, mainly, from the purchase of outstanding Canadian bonds by United States investors.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Current Account Between Canada and All Countries
(See Table I)

In 1942 total credits on current account with all countries of $3,384 million exceeded total debits of $2,275 million by $1,109 million. This balance compares with credit balances on current account of $491 million in 1941 and $126 million in 1939. In 1942 as in other years during the war the sharpest increase was in the gross credits. Credits, debits and balance are, of course, at record levels and reflect the great expansion in the Canadian economy with the export of war production to the many theatres of war throughout the world.

Table 1 - Current Account Between Canada and All Countries
(millions of Dollars)

Year	Credits	Debits	Net Credits
1937	1,593	1,413	+ 180
1938	1,361	1,261	+ 100
1939	1,457	1,331	+ 126
1940	1,776	1,627	+ 149
1941	2,458	1,967	+ 491
1942	3,384	2,275	+1109

In order to reveal the financial and foreign exchange aspects of the international accounts produced by these wartime changes, it is necessary to divide the balance of payments statements into two clearly defined divisions for the reasons which have already been discussed, - the balance of payments between Canada and the Sterling Area, and the balance of payments between Canada and the rest of the world, with which Canada's dealings are on a United States dollar basis. Separate statements are therefore shown for transactions with Empire Countries and Non-Empire Countries. Insofar as was possible, the statement for Empire Countries represents the Sterling Area and the statement for Non-Empire Countries represents the United States dollar area during the war years. In the period before the introduction of exchange control by the nations of the British Commonwealth in September, 1939, the division into the two areas has less significance from a currency point of view, being only a division between Empire and Non-Empire countries.

Current Transactions with Empire Countries
(See Table II to IV)

The dominant characteristic of the balance of payments between Canada and the Sterling Area, a large excess of Canadian exports and other sources of balance of payments credits over imports and other debits, was even more pronounced in 1942 than in the earlier years of the war. Total British expenditures increased sharply while British current receipts increased only moderately. The net credit on current account in 1942 was $1,277 million compared with $805 million in 1941, $419 million in 1940 and $176 million in 1939. The expansion in British expenditures was mainly due to much heavier payments for munitions. Payments for raw materials and food continued at very high levels also while expenditures on various war activities, including air training in Canada, increased substantially. Expenditures in Canadian ports in connection with shipping and payments for inland freight on exports were also higher. The total value of exports from Canada on Empire account, including prepayments for goods in the process of production, increased from $1,098 million in 1941 to $1,549 in 1942. These figures compare with the value of exports to Empire countries in 1939 of $436 million and do not include exports on Canadian account such as equipment for the Canadian Army in the United Kingdom.

The moderate gain in British receipts was due almost entirely to the higher level of Canadian expenditures abroad in connection with the Canadian armed forces overseas. Total overseas expenditures of the Canadian government were $191 million in 1942 compared with $97 million in 1941. Imports from both the United Kingdom and the rest of the Sterling Area, amounting to $116 million and $110 million respectively in 1942, were lower than in 1941 but still higher than in 1939. These imports do not include goods which are not purchased by Canada, such as contributions in kind made by the Government of the United Kingdom to the Combined Air Training Organization and the equipment imported for the R. A. F. Special Schools in Canada. Net payments of interest and dividends by Canada to the Sterling Area have declined from $75 million in 1939 to $63 million in 1941 and $44 million in 1942. This decline in mainly a reflection of the elimination of interest payments on Canadian bonds which have been repatriated since the start of the war as payments of dividends to shareholders in the Sterling Area have not varied much during the period.

Table 2 - Current Account Between Canada and Empire Countries

(millions of dollars)

Year	Credits	Debits	Net Credits
1937	565	406	+ 159
1938	508	337	+ 171
1939	502	326	+ 176
1940	822	403	+ 419
1941	1,321	516	+ 805
1942	1,834	557	+1277

The current account with the Sterling Area, shown in the various accompanying tables, is divided into transactions between Canada and the United Kingdom and Canada and Other Empire Countries. An analysis of official expenditures on war production has enabled this division to be made satisfactorily in 1941 and 1942. In 1940, however, merchandise exported on British account and shipped to Egypt and other Empire Countries is included in the "Other Empire" section of the statements.

Capital Account Transactions with Empire Countries

Gross capital receipts by Canada from Empire countries in 1942 were $884 million. The largest element in this figure, however, is $818 million representing the net decline in 1942 in the Sterling balances which had been accumulated by Canada in the earlier years of the war. The principal part of the decline, $700 million, resulted from the conversion of an equivalent amount of Sterling into a special loan to the Government of the United Kingdom. Most of the remaining $66 million of capital credits is made up of $58 million expenditures by the United Kingdom on fixed capital invested in Canada for the production of munitions and for air training. These fixed capital expenditures were considerably less than in earlier years, the corresponding figure in 1941 amounting to $157 million. Private capital receipts in 1942 of $8 million include such items as claims received for the loss of vessels and distributions of estates and trusts, and certain changes in private balances of non-residents.

Gross capital debits, exclusive of the billion dollar gift and the special purchase of gold, amounted to $1,129 million in 1942. Of this amount $59 million represents privately financed capital payments by Canada. Private retirements of securities, purchases of securities, repayments of mortgages and loans, settlements of estates and trusts and insurance company transactions make up most of this $59 million. The remaining amount of $1,070 million is made up of debits connected with official transactions which are shown in detail in Table 3.

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The prinical means adopted by the Canadian government of financing the residual needs of the United Kingdom on current and capital accounts was the billion dollar gift to the Government of the United Kingdom. With this contribution of funds the British supply of dollars from other sources was supplemented so that British purchases in Canada would not be limited by a shortage of dollars. Consequently, the British Government was enabled to purchase munitions, raw materials, and food, and to make other expenditures necessary for the prosecution of the war. In addition to the billion dollar contribution, other Dominion government transactions also had the effect of increasing the United Kingdom's supply of Canadian exchange. Official repatriations by Canada of Dominion and Canadian National Railway issues held in the United Kingdom resulted in the transfer of $296 million to the United Kingdom, miscellaneous payments to adjust previous transactions, mainly in connection with munitions contracts, amounted to $74 million, and a special purchase of gold resulted in the transfer of an additional $23 million to the United Kingdom. There were also capital debits of $700 million reflecting the conversion of the major part of the accumulation of sterling balances into a special loan to the United Kingdom in 1942. The accumulation of these sterling balances by the Foreign Exchange Control Board in 1940 and 1941 was the principal means of meeting the requirements of the United Kingdom up until 1942. A summary of the capital transactions between Canada and the Empire Countries, between 1939 and 1942, appears in Table 3.

Tabel 3 - Capital Transactions Between Canada and Empire Countries

Capital Credits	1939	1940	1941	1942
Decrease in £ balances	-	-	-	818
Other credits	97	116	181	66
Total Credits	97	116	181	884
Capital Debits				
Private Transactions	105	111	73	59
Official Transactions -				
Repatriations	75	137	189	296
Increase in £ balances	-	82	728	-
Special loan to U. K.	-	-	-	700
Special payments	-	-	-	74
Total debits as above	180	330	990	1,129
Special Gold Transactions	2	248	-	23
Billion Dollar Contribution	-	-	-	1,000

Current Transactions with Non-Empire Countries
(See Tables V - VII)

Net debits from current account transactions between Canada and Non-Empire Countries in 1942 amounted to $168 million, compared with $314 million in 1941 and $270 million in 1940. Although this marks a decline from the high level of the current account deficits of 1940 and 1941 it is still large in relation to the net debits of $50 million in 1939 and the net credits of $21 million in 1937. In each year from 1937 to 1942 there have been large deficits with the United States which have been partly offset by credit balances from transactions with other foreign countries. These

credit balances, arising mainly from trade with other foreign countries, have been greatly reduced, however, by the elimination of exports to most areas of Continental Europe and Asia.

The rapid and continued rise in the value of imports from the United States during the war has been a primary factor in the growth of the debit balance with the United States dollar area. Imports from the United States have grown from $472 million in 1939 to $702 million in 1940, $910 million in 1941 and $1,116 million in 1942. Imports on British or other Allied account which are not paid for by Canada, are excluded from these figures. The demand for imports is, of course, closely related to the war production program. Imports of capital equipment have been an important element, especially in the earlier years of the war. As munitions production has expanded imports of materials, fuel, and components have also grown and represent a major part of the increases. An important part of these United States dollar requirements arises from the United States dollar content of production in Canada for the United Kingdom. Direct purchases by Canada in the United States of aircraft and other equipment for the armed services have also been substantial and the high level of incomes has led to increased demands for civilian commodities imported from the United States although the range of these has been limited by the War Exchange Conservation Act. The value of imports from other foreign countries has not fluctuated widely between 1937 and 1942. The United States, however, has, in recent years, become the source of supply of some commodities formerly imported from overseas.

Table 4 - Current Account Between Canada and Non-Empire Countries

(Millions of Canadian Dollars)

Year	Credits Total Non-Empire	Debits Total Non-Empire	Total Non-Empire	Net Balances United States	Net Balances Other Foreign
1937	1,028	1,007	+ 21	- 77	+98
1938	853	924	- 71	-149	+78
1939	955	1,005	- 50	-116	+66
1940	954	1,224	-270	-292	+22
1941	1,137	1,451	-314	-318	+ 4
1942	1,550	1,718	-168	-180	+12

While exports to the United States dollar area have increased each year during the war there has been less regularity in the increases than in the rise in imports. The greatest expansion occurred in 1942 when the total value was $974 million compared with $634 million in 1941. The gains in earlier years were more moderate, exports to non-Empire countries in 1939 being $470 million, and in 1940, $503 million. The increases in exports to the United States have been greater than these amounts, however, as export credits from other foreign countries have declined each year. The great increase in exports in 1942 is, of course, principally a result of transactions under the agreements entered into between the Canadian Prime Minister and the President of the United States at Hyde Park in April, 1941. Exports resulting from the agreements first became substantial in 1942 when deliveries of munitions, metals and other war production rapidly expanded. The Hyde Park element in the total exports to the United States is covered by the cash received for deliveries of production rather than the value of exports since the goods themselves were not all shipped to destinations in the United States. Some prepayments and capital advances received in connection with production under the agreements, received in

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

1941 and 1942, have been entered as credits in the capital account to be offset as deliveries take place. Another notable feature of exports to the United States in 1942 is that a considerable part of the increase occurred in normal exports other than "Hyde Park items" so that the value of raw materials and other civilian commodities exported to the United States in 1942 was at a record level.

Net exports of non-monetary gold produced $184 million Canadian in 1942 compared with $204 million in 1941. While the exports in 1942 had the same Canadian dollar value as exports in 1939 there is a considerable decline in quantity reflected in the 1942 figure since it includes the 10% premium on United States dollars. Gold production in 1942 declined as a result of manpower transfers and higher costs.

Tourist and travel expenditures produced net credits of $55 million in 1942 compared with $90 million in 1941. Most of this decline reflects the sharp reduction in United States expenditures in Canada which declined from $107 million in 1941 to $79 million in 1942. The contraction in automobile travel was the principal reason for the decline in receipts. Some of this reduction in expenditures of automobile tourists was offset, however, by higher expenditures by the larger number of persons travelling by rail. Canadian travel expenditures in the United States increased from $18 million in 1941 to $24 million in 1942 - a probable reflection of increased business and military travel. The net credits of $55 million from travel expenditures in 1942 compare with estimated net credits of $85 million in 1937, $70 million in 1938 and $72 million in 1939. While the expenditures in Canada of travellers from all Non-Empire countries were considerably higher in the three pre-war years than in any year since, being estimated at $154 million in 1937, Canadian travel expenditures in Non-Empire countries were also higher before the war, being estimated at $69 million in 1937. During the war, Canadian expenditures involving the use of United States dollars have been sharply reduced as a result of the official restrictions on pleasure travel introduced in July, 1940.

Net payments to the United States dollar area on account of interest and dividends were $159 million in 1942 compared with $163 million in 1941. This reduction in the debit balance was the result of increased income from Canadian-owned investments in Non-Empire countries, particularly from direct investments in the United States. Total payments of interest and dividends on investments in Canada owned by residents of the United States dollar area were at about the same level in 1941 and 1942 being $219 million in the latter year. The division of the total between interest and dividends was different, however. Dividends declined in 1942, while interest payments were higher as a result of the heavy purchases of outstanding Canadian bonds by United States investors in recent years. The net debits of $159 million on account of interest and dividends in 1942 compare with the pre-war figures of $146 million in 1937, $163 million in 1938, and $174 million in 1939.

Net debits on account of freight and shipping with the United States dollar area continued to grow rapidly in 1942 being $85 million compared with $65 million in 1941, and a pre-war level of $21 million in 1939. The principal factor in this growth was the large increase in ocean shipping costs brought about by the sharp rises in shipping and war risk insurance rates. Although payments for inland freight on coal and other commodities imported from the United States continued to mount, these increases were more than offset by increased receipts by Canadian railways carrying exports to the United States border.

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All other current transactions resulted in a credit balance of $43 million compared with substantial debit balances in preceding years. As it includes unusual transactions the composition of this item varies in the different years. Wartime factors were particularly significant in producing the credit balance in 1942. Expenditures by the United States Government on the construction of the Alaska Highway and other developments in Canada were substantial. Newfoundland's balance of United States dollar receipts, which were also included, were particularly heavy in 1942 because of expenditures of the United States Government on bases in Newfoundland

Capital Transactions with Non-Empire Countries

Capital payments by Canada to non-Empire countries, are, of course, subject to restrictions imposed by foreign exchange control. In general, payments were allowed only in the case of maturing contractual commitments, although certain other types of capital transfers were permitted in minor amounts.

Gross capital debits in the account with Non-Empire countries in 1942 amounted to $212 million. Retirements of Canadian bonds and debentures held in the United States and repayments of mortgages, loans and advances and other contractual obligations make up most of the cash payments as in former years. In 1942, however, there were also debits in connection with changes in private balances and other short-term assets as well as debit entries reflecting an increase in Canada's official reserves of gold and United States dollars. An important factor contributing to this increase in reserves was the unusually high level of purchases of Canadian securities by United States investors.

Capital credits with non-Empire countries totalled $351 million in 1942. The proceeds from the purchase of securities by investors in the United States was the largest single source of capital credits. Transactions in outstanding Canadian bonds represented the largest part of this import of capital. These were heavier than in any previous year for which records are available and were concentrated in Dominion, Dominion guarantees and Provincials. Marked increases during 1942 in the quotations for Canadian bonds in United States bond markets were a factor in this movement of securities from Canada. There also continued to be a substantial liquidation of Canadian holdings of United States securities in 1942, and sales of domestic securities to non-residents for Canadian dollars.

The other prominent source of capital credits in 1942 was the receipt of certain prepayments and capital advances arising out of the Hyde Park agreements. These advances in connection with the production of munitions and raw materials in Canada, of course give rise to subsequent deliveries of exports for which no payments will be received.

Capital credits also originated in various increases in other forms of United States investments in Canada, and decreases in other forms of Canadian-owned assets in the United States and elsewhere. These credits were in connection with direct investments, insurance transactions, estates and trusts, real estate, short-term financing, repayments, etc. Expenditures by the United States government on the Alaska Highway and other developments in Canada are covered in the current account rather than the capital account.

Credits of $23 million were also recieved from the sale in the United States of the gold purchased from the United Kingdom.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

STATISTICAL NOTES

Merchandise Trade

While export and import statistics are the principal source used for this item, they have been adjusted to bring them more into conformity with payments in the two currency areas into which the balance of payments statements are divided.

Where data on international payments for war supplies through official channels were available these have been substituted for the value of goods exported. Thus, in 1941 and 1942, British payments through official channels for war supplies and food, and payments by the United States Government for war supplies and metals exported under the Hyde Park agreements have been entered as credits in the merchandise account rather than the value of the goods exported. Since war supplies purchased by the British and United States governments have been shipped to various destinations, this substitution of financial data on payments for the value of goods shipped has been a major adjustment necessary in the construction of balance of payments statements with the two currency areas in 1941 and 1942. The figures in the merchandise item of the tables are accordingly indicative of international payments rather than of shipments of goods to the various countries and areas. Exports are also adjusted on account of wheat and other grain movements for storage. Imports are adjusted for warehousing and for over-valuation. Trade between Canada and Newfoundland has been excluded.

Shipments of merchandise on Canadian account such as equipment and supplies for the Canadian forces overseas, Red Cross supplies and private gifts and the Dominion's gift of wheat to Greece have also been deducted from the exports as no foreign exchange accrues from these transactions. Imports of merchandise for the account of British or Allied Governments have also been deducted from the trade figures. These deductions cover such imports as goods which the British Government has shipped to Canada as part of its contribution to the Combined Air Training Organization and equipment and supplies for the R. A. F. Special Schools in Canada. Imports from the United States which have been deducted, are principally made up of aircraft, aircraft engines and parts and other military equipment, and materials for British or Allied organizations in Canada which are not paid for by Canada.

As a result of these adjustments, the merchandise item is more representative of the international payments made during the periods covered. There is still, however, the possibility of divergencies between the time of payment and the time of import or export in the large volume of trade which continues to flow through private channel although some adjustment for these in the case of intracompany transactions appears elsewhere in the balance of payments.

Net Exports of Non-Monetary Gold

This item is the value of "Net Exports of Non-Monetary Gold" as computed by the Bank of Canada and explained on page 152 of the September, 1939, Bank of Canada Statistical Summary. The figures correspond roughly to the value of current production in Canada. The total net exports have been shown in the current account with the United States although in the pre-war period there were some exports of gold to overseas countries arising out of temporary market conditions.

Tourist Expenditures

Estimates of tourist expenditures have been greatly improved in recent years. Through the co-operation with the Dominion Bureau of Statistics of the Customs

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Division of the Department of National Revenue and the Immigration Branch of the Department of Mines and Resources, new methods of estimating tourist expenditures, first introduced in 1940, have resulted in a greater volume of data than was formerly available. In 1941, a more extensive organization of tourist statistics procedure was undertaken. Progress was made, especially in the estimation of the expenditures of automobile tourists. A more uniformly classified count of the automobile traffic was obtained as a basic record of traffic. In addition, larger and more representative samples of tourist expenditures were collected. In 1942, 82% of all the United States motorists entering Canada on a travellers' vehicle permit reported their total expenditures in Canada. At the same time, a sample of approximately 44% was obtained from short-term local United States tourists crossing into Canada. Virtually all of the expenditures of Canadian motorists in the United States were also covered by a sample which exceeded 97% of the total traffic.

The estimates of expenditures in the years 1937, 1938 and 1939 have been revised in the light of information accumulated in recent years, whereas the estimates for 1940, 1941 and 1942 reflect the new procedure developed in 1941. In the revision of the pre-war years the new data on expenditures accumulated during the war have been related to the statistics on the volume of traffic before the war. Since this method has some arbitrary aspects the resulting estimates for the pre-war years have not as substantial a basis as the estimates for later years. It is believed, however, that they are fairly representative of the level of expenditures in the pre-war years. The new estimates point to much lower levels of expenditures in the pre-war years, particularly in the case of expenditures of United States travellers in Canada, than the estimates originally published.

Interest and Dividends on Securities

This item is limited to interest on bonds and debentures and dividends paid on stock. Some remittances of income on investments other than securities, for which data are available for the period from 1940 to 1942 for the first time, have been included in the item "All Other Current Transactions". Estimates of these miscellaneous income items have been included in the latter item for the pre-war years as well.

Revenue accruing to residents of enemy occupied and proscribed territory from investments in Canada, is entered as a debit in the interest and dividend item, and offset by a credit entry in the capital account.

Freight and Shipping

This item includes estimates covering ocean shipping operations, freight paid to United States railways on imports, inland freight earned by Canadian transportation companies carrying exports to the United States border or Canadian ocean ports, revenue received by Canada from in-transit traffic, and payments for marine and war-risk insurance on goods imported into Canada from overseas. The accounts between the two currency areas have been adjusted to allow for the U. S. dollar cost of prepaid freight on exports to the sterling area.

Ocean shipping transactions include: freight paid to British or foreign ships on imports, expenditures abroad on account of Canadian ships, payments by Canadian companies for the charter of British or foreign ships, earnings of Canadian ships on exports and on traffic between foreign ports, revenue of Canadian companies from the charter of ships and expenditures in Canada on account of British and foreign ships. The latter group of expenditures rose sharply in 1941 and 1942 over the level of previous years.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

All Other Current Transactions

This item includes government expenditures, a wide range of miscelleneous transactions mostly in the field of services, and some unusual transactions which have occurred since the war, and which are not readily classified in any other item. In comparisons of this item from one year to another, its varied composition should be taken into consideration. The treatment of some types of transactions also varies during the period, the net balance being entered in some years and the gross transactions in others.

Government expenditures are more important in 1941 and 1942 than in previous years and represent the bulk of the item in the account with Empire Countries. The expenditures of the Dominion Government in connection with the maintenance of the Canadian armed forces overseas is the most important part of the Government expenditures among the debits, and the expenditures of the British Government on air training and other wartime activities in Canada, and the expenditures of Australia and New Zealand on air training are the most important among the credit entries for Government expenditures in the account with Empire countries. Payments by the Canadian Government for imports of goods and by the British or Allied governments for goods exported, are, of course, not included in this item as they are part of the item "Merchandise Trade". Nor does this item include government transactions belonging to the capital account such as official repatriations, changes in official balances and capital expenditures by the United Kingdom Government.

Also included are variable transactions such as Newfoundland's balance of United States dollar receipts which, in 1941 and 1942, were heavier than usual owing to the expenditures of the United States Government on bases in Newfoundland. The expenditures of the United States Government on the Alaska Highway and other developments in Canada are also an important source of credits included in 1942.

Among the miscellaneous tranactions which have been consolidated into this item are personal and immigrant remittances, religious and benevolent remittances, war funds and other private remittances to the armed forces overseas, motion picture and other royalties, earnings of Canadian residents employed in the United States and United States residents employed in Canada, commercial and financial services, telegraph and cable, professional, technical and management services, operating expenses of offices and agencies, and other sundry services.

The item also includes miscellaneous remittances of income for which data first became available from sources developed in 1940. These remittances cover interest on mortgages and loans, rents, crop share rentals, profits from speculation and certain types of business, income received by Canadians from foreign estates and trusts, etc. Estimates of this miscellaneous income have been included for the pre-war years as well.

Balancing Item

This is a balancing item between the current and capital accounts, and is a reflection of errors or omissions in the statements since in a perfect balance of payments statement, the net balances in the current account and the capital account would exactly offset one another. In the years 1940 to 1942 this relationship exists in the accounts with the Empire and the Non-Empire as well as in the statement with all countries due to the existence of exchange control. In the years 1937 to 1939 this relationship only applies to the statement for all countries since in the period before exchange control, balances in the account with sterling area countries were freely convertible into United States dollars.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

While the causes of the residual cannot be identified with certainty there have been situations apparent from time to time which appear to have contributed to the residual. Factors connected with the relationships between the movement of goods and payments are particularly elusive. In 1937, however, it is likely that the heavy exports in that year, particularly of newsprint, which were not all paid for in 1937, contributed to the residual which indicated a surplus of credits. In 1938 and 1939 it is possible that the shortage of credits suggested by the residual is partly the result of imports of refugee capital from Europe not being completely reflected in the statement. It is not improbable that the large residual with the Sterling Area in 1940 is a reflection of some working capital advances by the British Government to contractors in Canada in the early stages of the war production program which were not all covered in the statement.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1937 - 1942.

TABLE I

TRANSACTIONS BETWEEN CANADA AND ALL COUNTRIES.
(Millions of Canadian dollars)

	1937	1938	1939	1940	1941	1942
A. CREDITS - WITH ALL COUNTRIES						
Merchandise exports- after adjustment	1,041	844	906	1,202	1,732	2,523
Net exports of non-monetary gold	145	161	184	203	204	184
Tourist expenditures	166	149	149	104	111	81
Interest and dividends	76	66	57	52	60	67
Freight ans shipping	112	95	102	138	185	221
All other current credits	53	46	59	77	166	308
Total Current Credits	1,593	1,361	1,457	1,776	2,458	3,384
Special Gold Transactions(2)	-	-	2	248	-	23
Capital Credits	622	458	558	283	566	1,235
B. DEBITS - WITH ALL COUNTRIES						
Merchandise imports-after adjustment	776	649	713	1,006	1,264	1,406
Tourist expenditures	87	86	81	43	21	26
Interest and dividends	302	307	306	313	286	270
Freight and shipping	137	105	119	132	167	228
All other current debits	111	114	112	133	229	345
Total Current Debits	1,413	1,261	1,331	1,627	1,967	2,275
Special Gold Transactions(2)	-	-	2	248	-	23
Capital Debits	794	570	694	471	1,063	1,341
Billion Dollar Contribution	-	-	-	-	-	1,000
C. NET BALANCES - WITH ALL COUNTRIES						
Merchandise trade-after adjustment	+ 265	+ 195	+ 193	+ 196	+ 468	+1,117
Net exports of non-monetary gold	+ 145	+ 161	+ 184	+ 203	+ 204	+ 184
Tourist expenditures	+ 79	+ 63	+ 68	+ 61	+ 90	+ 55
Interest and dividends	- 226	- 241	- 249	- 261	- 226	- 203
Freight ans shipping	- 25	- 10	- 17	+ 6	+ 18	- 7
All other current transactions	- 58	- 68	- 53	- 56	- 63	- 37
Total Current Account	+ 180	+ 100	+ 126	+ 149	+ 491	+1,109
Special Gold Transactions(2)	-	-	-	-	-	-
Capital Accounts	- 172	- 112	- 136	- 188	- 497	- 106
Billion Dollar Contribution	-	-	-		-	-1,000
Balancing Item(1)	- 8	+ 12	+ 10	+ 39	+ 6	- 3
	- 180	- 100	- 126	- 149	- 491	-1,109

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically.

(2) This represents gold received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's Deficiency with the United States.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1937 - 1942.

TABLE II

TRANSACTIONS BETWEEN CANADA AND EMPIRE COUNTRIES.
(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942
A. CREDITS - WITH EMPIRE COUNTRIES						
Merchandise exports-after adjustment	493	442	436	699	1,098	1,549
Tourist expenditures	12	10	9	6	3	2
Interest and dividends	7	5	5	3	5	7
Freight and shipping	45	43	43	76	119	127
War Services	-	-	-	20	74	130
All other current credits	8	8	9	18	22	19
Total Current Credits	565	508	502	822	1,321	1,834
Capital Credits	118	102	97	116	181	884
B. DEBITS - WITH EMPIRE COUNTRIES						
Merchandise imports-after adjustment	235	184	177	236	279	226
Tourist expenditures	18	17	13	3	3	2
Interest and dividends	87	83	80	76	68	51
Freight and shipping	47	34	39	36	36	49
Canadian Overseas expenditures	-	-	-	29	97	191
All other current debits	19	19	17	23	33	38
Total Current Debits	406	337	326	403	516	557
Special Gold Transactions(2)	-	-	2	248	-	23
Capital Debits	142	155	180	330	990	1,129
Billion Dollar Contribution	-	-	-	-	-	1,000
C. NET BALANCES - WITH EMPIRE COUNTRIES						
Merchandise trade-after adjustment	+ 258	+ 258	+ 259	+ 463	+ 819	+1,323
Tourist expenditures	- 6	- 7	- 4	+ 3	-	-
Interest and dividends	- 80	- 78	- 75	- 73	- 63	- 44
Freight and shipping	- 2	+ 9	+ 4	+ 40	+ 83	+ 78
All other current transactions	- 11	- 11	- 8	- 14	- 34	- 80
Total Current Account	+ 159	+ 171	+ 176	+ 419	+ 805	+1,277
Special Gold Transactions(2)	-	-	- 2	- 248	-	- 23
Capital Account	- 24	- 53	- 83	- 214	- 809	- 245
Billion Dollar Contribution	-	-	-	-	-	-1,000
Balancing Item(1)	(1)	(1)	(1)	+ 43	+ 4	- 9
				- 419	- 805	-1,277

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically. In the statements of transactions with Empire Countries and with Non-Empire Countries it reflects mutilateral settlements in the period before exchange control.

(2) This represents gold received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1937 - 1942.

TABLE III

CURRENT TRANSACTIONS BETWEEN CANADA AND THE UNITED KINGDOM
(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942
A. CURRENT CREDITS - WITH THE UNITED KINGDOM						
Merchandise exports-after adjustment	385	337	332	542	914	1,408
Tourist expenditures	11	8	7	5	2	2
Interest and dividends	2	2	2	2	4	5
Freight and shipping	38	34	34	60	110	114
All other Current credits	8	8	9	27	63	112
Total Current Credits	444	389	384	636	1,093	1,641
B. CURRENT DEBITS - WITH THE UNITED KINGDOM						
Merchandise imports - after adjustment	148	119	106	133	137	116
Tourist expenditures	16	15	11	2	2	2
Interest and dividends	85	81	78	74	66	50
Freight and shipping	43	30	36	32	28	41
All other current debits	17	17	16	52	126	225
Total Current Debits	309	262	247	293	359	434
C. NET CURRENT BALANCES - WITH THE UNITED KINGDOM						
Merchandise trade-after adjustment	+ 237	+ 218	+ 226	+ 409	+ 777	+1,292
Tourist expenditures	- 5	- 7	- 4	+ 3	-	-
Interest and dividends	- 83	- 79	- 76	- 72	- 62	- 45
Freight and shipping	- 5	+ 4	- 2	+ 28	+ 82	+ 73
All other current transactions	- 9	- 9	- 7	- 25	- 63	- 113
Total Current Account	+ 135	+ 127	+ 137	+ 343	+ 734	+1,207

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1937 - 1942.

TABLE IV

CURRENT TRANSACTIONS BETWEEN CANADA AND OTHER EMPIRE COUNTRIES
(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942
A. CURRENT CREDITS - WITH OTHER EMPIRE COUNTRIES						
Merchandise exports - after adjustment	108	105	104	157	184	141
Tourist expenditures	1	2	2	1	1	(1)
Interest and dividends	5	3	3	1	1	2
Freight and shipping	7	9	9	16	9	13
All other Current credits	(1)	(1)	(1)	11	33	37
Total Current Credits	121	119	118	186	228	193
B. CURRENT DEBITS - WITH OTHER EMPIRE COUNTRIES						
Merchandise imports - after adjustment	87	65	71	103	142	110
Tourist expenditures	2	2	2	1	1	(1)
Interest and dividends	2	2	2	2	2	1
Freight and shipping	4	4	3	4	8	8
All other current debits	2	2	1	(1)	4	4
Total Current Debits	97	75	79	110	157	123
C. NET CURRENT BALANCES - WITH OTHER EMPIRE COUNTRIES						
Merchandise trade - after adjustment	+ 21	+ 40	+ 33	+ 54	+ 42	+ 31
Tourist expenditures	- 1	-	-	-	-	-
Interest and dividends	+ 3	+ 1	+ 1	- 1	- 1	+ 1
Freight and shipping	+ 3	+ 5	+ 6	+ 12	+ 1	+ 5
All other current transactions	- 2	- 2	- 1	+ 11	+ 29	+ 33
Total Current Account	+ 24	+ 44	+ 39	+ 76	+ 71	+ 70

(1) Less than $500,000

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1937 - 1942.

TABLE V.

TRANSACTIONS BETWEEN CANADA AND NON-EMPIRE COUNTRIES
(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942
A. CREDITS - WITH NON-EMPIRE COUNTRIES						
Merchandise exports - after adjustment	548	402	470	503	634	974
Net exports of non-monetary gold	145	161	184	203	204	184
Tourist expenditures	154	139	140	98	108	79
Interest and dividends	69	61	52	49	55	60
Freight and shipping	67	52	59	62	66	94
All other current credits	45	38	50	39	70	159
Total Current Credits	1,028	853	955	954	1,137	1,550
Special Gold Transactions(2)	-	-	2	248	-	23
Capital Credits	504	356	461	167	385	351
B. DEBITS - WITH NON-EMPIRE COUNTRIES						
Merchandise imports - after adjustment	541	465	536	770	985	1,180
Tourist expenditures	69	69	68	40	18	24
Interest and dividends	215	224	226	237	218	219
Freight and shipping	90	71	80	96	131	179
All other current debits	92	95	95	81	99	116
Total Current Debits	1,007	924	1,005	1,224	1,451	1,718
Capital Debits	652	415	514	141	73	212
C. NET BALANCES - WITH NON-EMPIRE COUNTRIES						
Merchandise trade - after adjustment	+ 7	- 63	- 66	- 267	- 351	- 206
Net exports of non-monetary gold	+ 145	+ 161	+ 184	+ 203	+ 204	+ 184
Tourist Expenditures	+ 85	+ 70	+ 72	+ 58	+ 90	+ 55
Interest and dividends	- 146	- 163	- 174	- 188	- 163	- 159
Freight and shipping	- 23	- 19	- 21	- 34	- 65	- 85
All other current transactions	- 47	- 57	- 45	- 42	- 29	+ 43
Total Current Account	+ 21	- 71	- 50	- 270	- 314	- 168
Special Gold Transactions(2)	-	-	+ 2	+ 248	-	+ 23
Capital Account	- 148	- 59	- 53	+ 26	+ 312	+ 139
Balancing Item(1)	(1)	(1)	(1)	- 4	+ 2	+ 6
				+ 270	+ 314	+ 168

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically. In the statements of transactions with Empire Countries and with Non-Empire Countries it reflects multilateral settlements in the period before exchange control.

(2) This represents gold received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1937 - 1942.

TABLE VI

CURRENT TRANSACTIONS BETWEEN CANADA AND THE UNITED STATES
(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942
A. CREDITS - WITH THE UNITED STATES						
Merchandise exports-after adjustment	391	268	344	424	566	911
Net exports of non-monetary gold	145	161	184	203	204	184
Tourist expenditures	149	134	137	98	107	79
Interest and dividends	31	25	27	29	39	43
Freight and shipping	45	39	46	49	64	92
All other current credits	42	36	42	31	65	152
Total Current Credits	803	663	780	834	1,045	1,461
B. DEBITS - WITH THE UNITED STATES						
Merchandise imports-after adjustment	463	400	472	702	910	1,116
Tourist expenditures	65	66	67	40	18	24
Interest and dividends	211	218	220	233	214	215
Freight and shipping	68	55	61	78	131	179
All other current debits	73	73	76	73	90	107
Total Current Debits	880	812	896	1,126	1,363	1,641
C. NET BALANCES - WITH THE UNITED STATES						
Merchandise trade-after adjustment	- 72	- 132	- 128	- 278	- 344	- 205
Net exports of non-monetary gold	+ 145	+ 161	+ 184	+ 203	+ 204	+ 184
Tourist expenditures	+ 84	+ 68	+ 70	+ 58	+ 89	+ 55
Interest and dividends	- 180	- 193	- 193	- 204	- 175	- 172
Freight and shipping	- 23	- 16	- 15	- 29	- 67	- 87
All other current transactions	- 31	- 37	- 34	- 42	- 25	+ 45
Total Current Account	- 77	- 149	- 116	- 292	- 318	- 180

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1937 - 1942.

TABLE VII

CURRENT TRANSACTIONS BETWEEN CANADA AND OTHER FOREIGN COUNTRIES.
(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942
A. CREDITS - WITH OTHER FOREIGN COUNTRIES						
Merchandise exports-after adjustment	157	134	126	79	68	63
Tourist expenditures	5	5	3	(1)	1	(1)
Interest and dividends	38	36	25	20	16	17
Freight and shipping	22	13	13	13	2	2
All other current credits	3	2	8	8	5	7
Total Current Credits	225	190	175	120	92	89
B. DEBITS - WITH OTHER FOREIGN COUNTRIES						
Merchandise imports-after adjustment	78	65	64	68	75	64
Tourist expenditures	4	3	1	(1)	(1)	(1)
Interest and dividends	4	6	6	4	4	4
Freight and shipping	22	16	19	18	(2)	(2)
All other current debits	19	22	19	8	9	9
Total Current Debits	127	112	109	98	88	77
C. NET BALANCES - WITH OTHER FOREIGN COUNTRIES						
Merchandise trade-after adjustment	+ 79	+ 69	+ 62	+ 11	- 7	- 1
Tourist expenditures	+ 1	+ 2	+ 2	-	+ 1	-
Interest and dividends	+ 34	+ 30	+ 19	+ 16	+ 12	+ 13
Freight and shipping	-	- 3	- 6	- 5	+ 2	+ 2
All other current transactions	- 16	- 20	- 11	-	- 4	- 2
Total Current Account	+ 98	+ 78	+ 66	+ 22	+ 4	+ 12

(1) Less than $500,000
(2) Included in amount shown for United States.

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

TABLE VIII

Revised Statement, 1937
(Millions of Canadian $)

	Credits	Debits	Net
A. Canada and all Countries			
Current Account			
Merchandise trade-after adjustment	1,041	776	+ 265
Net exports of non-monetary gold	145	-	+ 145
Tourist expenditures	166	87	+ 79
Interest and dividends	76	302	- 226
Freight and shipping	112	137	- 25
All other current transactions	53	111	- 58
Totals - Current Account	1,593	1,413	+ 180
Capital Movements	622	794	- 172
Balancing Item (1)	-	8	- 8
	2,215	2,215	
B. Canada and Empire Countries			
Current Account			
Merchandise trade-after adjustment	493	235	+ 258
Tourist expenditures	12	18	- 6
Interest and dividends	7	87	- 80
Freight and shipping	45	47	- 2
All other current transactions	8	19	- 11
Totals - Current Account - United Kingdom	444	309	+ 135
Other Empire Countries	121	97	+ 24
All Empire Countries	565	406	+ 159
Capital Movements	118	142	- 24
Balancing Item(1)	(1)	(1)	
C. Canada and Non-Empire Countries			
Current Account			
Merchandise trade-after adjustment	548	541	+ 7
Net exports of non-monetary gold	145	-	+ 145
Tourist expenditures	154	69	+ 85
Interest and dividends	69	215	- 146
Freight and shipping	67	90	- 23
All other current transactions	45	92	- 47
Totals - Current Account - United States	803	880	- 77
Other Foreign Countries	225	127	+ 98
All Non-Empire Countries	1,028	1,007	+ 21
Capital Movements	504	652	- 148
Balancing Item (1)	(1)	(1)	

(1) This balancing item reflects possible errors and the omission of certain factor which cannot be measured statistically. In the statements of transactions with Empire countries and with Non-Empire Countries it reflects multilateral settlements in the period before exchange control.

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

TABLE IX

Revised Statement, 1938
(Millions of Canadian $)

	Credits	Debits	Net
A. Canada and all Countries			
Current Account			
Merchandise trade - after adjustment	844	649	+ 195
Net exports of non-monetary gold	161	-	+ 161
Tourist expenditures	149	86	+ 63
Interest and dividends	66	307	- 241
Freight and shipping	95	105	- 10
All other current transactions	46	114	- 68
Totals - Current Account	1,361	1,261	+ 100
Capital Movements	458	570	- 112
Balancing Item (1)	12	-	+ 12
	1,831	1,831	
B. Canada and Empire Countries			
Current Account			
Merchandise trade - after adjustment	442	184	+ 258
Tourist expenditures	10	17	- 7
Interest and dividends	5	83	- 78
Freight and shipping	43	34	+ 9
All other current transactions	8	19	- 11
Totals - Current Account - United Kingdom	389	262	+ 127
Other Empire Countries	119	75	+ 44
All Empire Countries	508	337	+ 171
Capital Movements	102	155	- 53
Balancing Item(1)	(1)	(1)	
C. Canada and Non-Empire Countries			
Current Account			
Merchandise trade - after adjustment	402	465	- 63
Net exports of non-monetary gold	161	-	+ 161
Tourist expenditures	139	69	+ 70
Interest and dividends	61	224	- 163
Freight and shipping	52	71	- 19
All other current transactions	38	95	- 57
Totals - Current Account - United States	663	812	- 149
Other Foreign Countries	190	112	+ 78
All Non-Empire Countries	853	924	- 71
Capital Movements	356	415	- 59
Balancing Item (1)	(1)	(1)	

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically. In the statements of transactions with Empire countries and with Non-Empire countries it reflects multilateral settlements in the period before exchange control.

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

TABLE X

Revised Statement, 1939
(Millions of Canadian $)

	Credits	Debits	Net
A. Canada and All Countries			
Current Account			
Merchandise trade - after adjustment	906	713	+ 193
Net exports of non-monetary gold	184	-	+ 184
Tourist expenditures	149	81	+ 68
Interest and dividends	57	306	- 249
Freight and shipping	102	119	- 17
All other current transactions	59	112	- 53
Totals - Current Account	1,457	1,331	+ 126
Special Gold Transactions (2)	2	2	-
Capital Movements	558	694	- 136
Balancing Item (1)	10	-	+ 10
	2,027	2,027	
B. Canada and Empire Countries			
Current Account			
Merchandise trade - after adjustment	436	177	+ 259
Tourist expenditures	9	13	- 4
Interest and dividends	5	80	- 75
Freight and shipping	43	39	+ 4
All other current transactions	9	17	- 8
Totals - Current Account - United Kingdom	384	247	+ 137
Other Empire Countries	118	79	+ 39
All Empire Countries	502	326	+ 176
Special Gold Transactions	-	2	- 2
Capital Movements	97	180	- 83
Balancing Item (1)	(1)	(1)	
C. Canada and Non-Empire Countries			
Current Account			
Merchandise trade - after adjustment	470	536	- 66
Net exports of non-monetary gold	184	-	+ 184
Tourist expenditures	140	68	+ 72
Interest and dividends	52	226	- 174
Freight and shipping	59	80	- 21
All other current transactions	50	95	- 45
Totals - Current Account - United States	780	896	- 116
Other Foreign Countries	175	109	+ 66
All Non-Empire Countries	955	1,005	- 50
Special Gold Transactions (2)	2	-	+ 2
Capital Movements	461	514	- 53
Balancing Item (1)	(1)	(1)	

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically. In the statements of transactions with Empire countries and with Non-Empire countries it reflects multilateral settlements in the period before exchange control.

(2) This represents gold received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

TABLE XI

Revised Statement, 1940
(Millions of Canadian $)

	Credits	Debits	Net
A. Canada and All Countries			
Current Account			
Merchandise trade - after adjustment	1,202	1,006	+ 196
Net exports of non-monetary gold	203	-	+ 203
Tourist expenditures	104	43	+ 61
Interest and dividends	52	313	- 261
Freight and shipping	138	132	+ 6
All other current transactions	77	133	- 56
Totals - Current Account	1,776	1,627	+ 149
Special Gold Transactions (2)	248	248	-
Capital Movements	283	471	- 188
Balancing Item (1)	39	-	+ 39
	2,346	2,346	
B. Canada and Empire Countries			
Current Account			
Merchandise trade - after adjustment	699	236	+ 463
Tourist expenditures	6	3	+ 3
Interest and dividends	3	76	- 73
Freight and shipping	76	36	+ 40
All other current transactions	38	52	- 14
Totals - Current Account - United Kingdom	636	293	+ 343
Other Empire Countries	186	110	+ 76
All Empire Countries	822	403	+ 419
Special Gold Transactions (2)		248	- 248
Capital Movements	116	330	- 214
Balancing Item (1)	43	-	+ 43
	981	981	
C. Canada and Non-Empire Countries			
Current Account			
Merchandise trade - after adjustment	503	770	- 267
Net exports of non-monetary gold	203	-	+ 203
Tourist expenditures	98	40	+ 58
Interest and dividends	49	237	- 188
Freight and shipping	62	96	- 34
All other current transactions	39	81	- 42
Totals - Current Account - United States	834	1,126	- 292
Other Foreign Countries	120	98	+ 22
All Non-Empire Countries	954	1,224	- 270
Special Gold Transactions (2)	248	-	+ 248
Capital Movements	167	141	+ 26
Balancing Item (1)	-	4	- 4
	1,369	1,369	

(1) This blancing item reflects possible errors and the omission of certain factors which cannot be measured statistically.

(2) This represents gold received from the United Kingdom in part settlement of her defiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

TABLE XII

Revised Statement, 1941
(Millions of Canadian $)

	Credits	Debits	Net
A. Canada and All Countries			
Current Account			
Merchandise trade - after adjustment	1,732	1,264	+ 468
Net exports of non-monetary gold	204	-	+ 204
Tourist expenditures	111	21	+ 90
Interest and dividends	60	286	- 226
Freight and shipping	185	167	+ 18
All other current transactions	166	229	- 63
Totals - Current Account	2,458	1,967	+ 491
Capital Movements	566	1,063	- 497
Balancing Item (1)	6	-	+ 6
	3,030	3,030	
B. Canada and Empire Countries			
Current Account			
Merchandise trade - after adjustment	1,098	279	+ 819
Tourist expenditures	3	3	-
Interest and dividends	5	68	- 63
Freight and shipping	119	36	+ 83
All other current transactions	96	130	- 34
Totals - Current Account - United Kingdom	1,093	359	+ 734
Other Empire Countries	228	157	+ 71
All Empire Countries	1,321	516	+ 805
Capital Movements	181	990	- 809
Balancing Item (1)	4	-	+ 4
	1,506	1,506	
C. Canada and Non-Empire Countries			
Current Account			
Merchandise trade - after adjustment	634	985	- 351
Net exports of non-monetary gold	204	-	+ 204
Tourist expenditures	108	18	+ 90
Interest and dividends	55	218	- 163
Freight and shipping	66	131	- 65
All other current transactions	70	99	- 29
Totals - Current Account - United States	1,045	1,363	- 318
Other Foreign Countries	92	88	+ 4
All Non-Empire Countries	1,137	1,451	- 314
Capital Movements	385	73	+ 312
Balancing Item (1)	2	-	+ 2
	1,524	1,524	

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically.

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

TABLE XIII

Preliminary Statement, 1942
(Millions of Canadian $)

	Credits	Debits	Net
A. Canada and All Countries			
Current Account			
Merchandise trade - after adjustment	2,523	1,406	+1,117
Net exports of non-monetary	184	-	+ 184
Tourist expenditures	81	26	+ 55
Interest and dividends	67	270	- 203
Freight and shipping	221	228	- 7
All other current transactions	308	345	- 37
Total - Current Account	3,384	2,275	+1,109
Special Gold Transactions (2)	23	23	-
Capital Movements	1,235	1,341	- 106
Billion Dollar Contribution	-	1,000	-1,000
Balancing Item (1)	-	3	- 3
	4,642	4,642	
B. Canada and Empire Countries			
Current Account			
Merchandise trade - after adjustment	1,549	226	+1,323
Tourist expenditures	2	2	-
Interest and dividends	7	51	- 44
Freight and shipping	127	49	+ 78
All other current transactions	149	229	- 80
Totals - Current Account - United Kingdom	1,641	434	+1,207
Other Empire Countries	193	123	+ 70
All Empire Countries	1,834	557	+1,277
Special Gold Transactions (2)	-	23	- 23
Capital Movements	884	1,129	- 245
Billion Dollar Contribution	-	1,000	-1,000
Balancing Item (1)	-	9	- 9
	2,718	2,718	
C. Canada and Non-Empire Countries			
Current Account			
Merchandise trade - after adjustment	974	1,180	- 206
Net exports of non-monetary gold	184	-	+ 184
Tourist expenditures	79	24	+ 55
Interest and dividends	60	219	- 159
Freight and shipping	94	179	- 85
All other current transactions	159	116	+ 43
Totals - Current Account - United States	1,461	1,641	- 180
Other Foreign Countries	89	77	+ 12
All Non-Empire Countries	1,550	1,718	- 168
Special Gold Transactions (2)	23	-	+ 23
Capital Movements	351	212	+ 139
Balancing Item (1)	6	-	+ 6
	1,930	1,930	

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically.

(2) This represents gold received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

TABLE XIV

MERCHANDISE TRADE BETWEEN CANADA AND OTHER COUNTRIES, 1937 - 1942
(exclusive of gold and adjusted for balance of payments purposes)

Credits from Exports	All Countries	Total	United Kingdom	Other Countries	Total	United States	Other Countries
1937	1,041	493	385	108	548	391	157
1938	844	442	337	105	402	268	134
1939	906	436	332	104	470	344	126
1940	1,202	699	542	157	503	424	79
1941	1,732	1,098	914	184	634	566	68
1942	2,523	1,549	1,408	141	974	911	63
Debits for Imports							
1937	776	235	148	87	541	463	78
1938	649	184	119	65	465	400	65
1939	713	177	106	71	536	472	64
1940	1,006	236	133	103	770	702	68
1941	1,264	279	137	142	985	910	75
1942	1,406	226	116	110	1,180	1,116	64
Net Credits (+) or Debits (-)							
1937	+ 265	+ 258	+ 237	+21	+ 7	- 72	+79
1938	+ 195	+ 258	+ 218	+40	- 63	-132	+69
1939	+ 193	+ 259	+ 226	+33	- 66	-128	+62
1940	+ 196	+ 463	+ 409	+54	-267	-278	+11
1941	+ 468	+ 819	+ 777	+42	-351	-344	- 7
1942	+1,117	+1,323	+1,292	+31	-206	-205	- 1

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

TABLE XV

REVISED ESTIMATES OF TOURIST EXPENDITURES BETWEEN CANADA AND OTHER COUNTRIES

1937 - 1942

		Empire			Non-Empire		
	All Countries	Total	United Kingdom	Other Countries	Total	United States	Other Countries
Credits- Expenditures of Foreign Tourists in Canada							
1937	166	12	11	1	154	149	5
1938	149	10	8	2	139	134	5
1939	149	9	7	2	140	137	3
1940	104	6	5	1	98	98	(1)
1941	111	3	2	1	108	107	1
1942	81	2	2	(1)	79	79	(1)
Debits-Expenditures of Canadian Tourists Abroad							
1937	87	18	16	2	69	65	4
1938	86	17	15	2	69	66	3
1939	81	13	11	2	68	67	1
1940	43	3	2	1	40	40	(1)
1941	21	3	2	1	18	18	(1)
1942	26	2	2	(1)	24	24	(1)
Net Credits (+) or Net Debits (-)							
1937	+79	-6	-5	-1	+85	+84	+1
1938	+63	-7	-7	-	+70	+68	+2
1939	+68	-4	-4	-	+72	+70	+2
1940	+61	+3	+3	-	+58	+58	-
1941	+90	-	-	-	+90	+89	+1
1942	+55	-	-	-	+55	+55	-

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

TABLE XVI

ESTIMATED DISTRIBUTION OF INTEREST AND DIVIDEND PAYMENTS AND RECEIPTS BETWEEN CANADA AND OTHER COUNTRIES

1937 - 1942

	All Countries	Empire			Non-Empire		
		Total	United Kingdom	Other Countries	Total	United States	Other Countries
Credits-Receipts of Interest & Dividends from Investments abroad:							
1937	76	7	2	5	69	31	38
1938	66	5	2	3	61	25	36
1939	57	5	2	3	52	27	25
1940	52	3	2	1	49	29	20
1941	60	5	4	1	55	39	16
1942	67	7	5	2	60	43	17
Debits-Payments of Interest & Dividends to Non-Residents:							
1937	302	87	85	2	215	211	4
1938	307	83	81	2	224	218	6
1939	306	80	78	2	226	220	6
1940	313	76	74	2	237	233	4
1941	286	68	66	2	218	214	4
1942	270	51	50	1	219	215	4
Net Credits (+) or Debits (-)							
1937	-226	-80	-83	+3	-146	-180	+34
1938	-241	-78	-79	+1	-163	-193	+30
1939	-249	-75	-76	+1	-174	-193	+19
1940	-261	-73	-72	-1	-188	-204	+16
1941	-226	-63	-62	-1	-163	-175	+12
1942	-203	-44	-45	+1	-159	-172	+13

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Minister of Trade and Commerce

CANADA

DEPARTMENT OF TRADE AND COMMERCE

DOMINION BUREAU OF STATISTICS

INTERNATIONAL PAYMENTS BRANCH

THE CANADIAN BALANCE

OF

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CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

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Minister of Trade and Commerce

DEPARTMENT OF TRADE AND COMMERCE
DOMINION BUREAU OF STATISTICS - CANADA
INTERNATIONAL PAYMENTS BRANCH

Dominion Statistician: S. A. Cudmore, M.A. (Oxon.), F.S.S., F.R.S.C.
Chief, International Payments Branch: C. D. Blyth, B. A.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Canada's external economic relations are revealed in outline by statements of the Canadian balance of international payments. The statements present, in a statistical form, a summary of the commercial and financial transactions occurring between Canada and other countries. They furnish, therefore, an overall view of the external relations of the Canadian economy just as national income studies provide an outline of its internal structure. In an economy such as Canada's where external sources of income and demand furnish an important dynamic element to activity within the country, the balance of payments focuses attention upon the impact of external demand upon the Canadian economy, the expenditure of income outside of Canada, and the resulting financial and exchange aspects. During the war transactions on external account have constituted an even larger proportion of the national income than formerly. In 1943, gross credits on current account represented almost one-half of the national income compared with approximately one-third in the period before the war.

GENERAL STRUCTURE OF THE BALANCE OF PAYMENTS

When statements for the pre-war years are contrasted with the wartime years, the changes in the size and structure of the balance of payments during the war are brought more clearly into relief. As the comparison shows, the wartime developments have, in many respects, been an accentuation of a pattern which was typical of Canada's international accounts during the pre-war years. In each year there have been credit balances in Canada's current account with Empire Countries and debit balances on current account with the United States, and with the non-Empire area as a whole; also, with the exception of 1937 when there was a small credit balance with all non-Empire countries. But underlying the similarity in structure, however, have been the outstanding differences in the mechanism of making international settlements which have been at the core of the financial problems arising out of developments in international payments during the war.

Before the war, particularly in the trade between the British Commonwealth of Nations and the United States, free exchange markets were the characteristic channel of international settlements between the principal trading nations of the world. Canada's international accounts provide an excellent example of how the system of multilateral settlements operated. In the years before the war Canada's balance of sterling income was freely convertible into United States dollars so that the Dominion was able to settle the deficit arising out of commercial and financial relations with the United States.

The sources of the sterling income were the substantial credit balances, shown in the statements of transactions with Empire countries, which mainly originated from Canadian exports to the United Kingdom. The factors contributing to the current deficits with the United States were the debit balances arising from merchandise trade, interest and dividends, freight and other services which were only

partly offset by credits from gold production and tourist expenditures. In addition to the current deficits with the United States there were large debits on capital account. In part offsetting these debit balances arising from current and capital transactions with the United States were in each of the pre-war years substantial credit balances from transactions with other foreign countries.

The system of multilateral settlements which operated before the war provided the mechanism by which the international balances described above were settled. Triangular settlements such as those arising from Canada's trade with the United Kingdom and the United States were a basic part of the frame work of world trade and had the effect of broadening the sphere of trading between nations by going far beyond the limited scope of bilateral trade.

WARTIME DEVELOPMENTS

The war, however, has interrupted the operation of the system of multilateral settlements by creating conditions under which sterling was no longer freely convertible into United States dollars. In addition, the current accounts of the belligerent nations have become distorted by wartime demands which have produced greatly augmented current balances for which new methods of settlement have had to be devised In the case of Canada, the new conditions produced problems with respect to the balances of payments with both the sterling area and the non-sterling area, and the situation made exchange control necessary.

During the wartime period, the external demand for Canadian production has been a dominant influence upon the balance of payments. British and other allied requirements for munitions, food, raw materials and other goods and also for war services have been among the principal contributors to the great wartime development of productive capacity and of capital equipment in Canada. The rapid expansion of investment in new productive facilities created heavy demands for capital goods procurable only in the United States. The new kinds of industrial production also led to new demands for fuel, industrial materials and components which also had to be purchased in the United States. As a result of the new capacity and demands the level of industrial production on overseas account rose to unprecedented heights.

In their external aspects, the financial problems accompanying this great achievement in production were twofold. There has been the problem associated with the British scarcity of Canadian dollars to pay for the munitions, food and other commodities which were so urgently needed for the prosecution of the war and there has been that arising from the Canadian shortage of United States dollars to pay for the capital equipment, materials and components required for the war production. These two tendencies contributed to the development of a greatly increased credit balance in the current account with the sterling area and an increased debit balance in the current account with the United States dollar area. Accompanying this great increase in disequilibrium was the interruption in the system of multilateral settlements already referred to. As a result of these developments, it was necessary to devise methods of overcoming these financial obstacles in order that they should not interfere with the Dominion's contribution to the war.

With the sterling area, the problem has been one of finding means of financing the growing British shortage of Canadian dollars resulting from the extraordinary wartime needs of the United Kingdom for Canadian munitions, food and raw materials. These needs, of course, have increased to unprecedented proportions as the United Kingdom is a principal base of operations against the axis. In the earlier years of the war, this shortage was principally met by the Canadian government repatriating Canadian securities owned in the United Kingdom and by the

accumulation of sterling balances by the Foreign Exchange Control Board. Some settlements have also been effected by purchases of gold from the United Kingdom which has, in turn, been sold in the United States to settle Canadian deficits there. In 1942, however, besides some additional repatriations, a new method of meeting the growing needs of the United Kingdom for Canadian dollars was introduced when a contribution of one billion dollars was made to the government of the United Kingdom for expenditure on war supplies in Canada. In the same year the major part of the accumulation of sterling balances by Canada was converted into a loan of $700 million to the United Kingdom. In 1943, a further development in the methods of financing the wartime needs of the Allied Nations was the appropriation by the Canadian Parliament of one billion dollars for Mutual Aid, for the production and transfer of Canadian war supplies to the United Nations. There were also special receipts of United States dollars from the United Kingdom in 1943. More details on the capital transactions with the sterling area will be found in Table 3 accompanying the comments on the capital transactions in 1943. Increasing current payments by the Canadian government to meet the overseas expenditures of the Canadian forces also provided a very substantial source of Canadian dollars for the United Kingdom in 1943. A prominent part of these expenditures arose from the assumption by Canada of the costs of 35 additional overseas squadrons of the Royal Canadian Air Force. In short, the United Kingdom has been able to obtain such a large volume of commodities from Canada for the prosecution of the war only because of special receipts of Canadian dollars such as have been outlined above. The special sources of dollars which have made this possible are mostly outlays of the Dominion government arising from the wartime financial organization of the Dominion in which government expenditures represent a large part of the national income.

In the case of the balance of payments with non-Empire countries, the central problem has also been one of scarcity - in this case a Canadian shortage of United States dollars. The customary deficits in Canada's current account with the United States have been greatly augmented by the war, principally because of the rapid rise in Canadian imports from the United States. At the same time, net credits from other foreign countries whose currencies are convertible into United States dollars have sharply contracted with the decline in exports to Continental Europe and Asia.

Since during the war period, the deficits incurred with the United States dollar area have had to be settled with United States dollars, it became necessary to conserve United States dollars for the more essential purposes of the war, and to develop new sources of United States dollars. Exchange control with the control of capital movements provided the principal means of conserving United States dollars. Government measures have also limited expenditures on Canadian pleasure travel and non-essential commodities in non-Empire countries. As a result of the agreements entered into at Hyde Park in April 1941, new sources of United States dollars were produced with the sale of munitions on a large scale to the United States government and further development of the production of raw materials in Canada. Settlements made by the United Kingdom in United States dollars, and in gold sold in the United States, have also been a factor in meeting deficits in the United States. Another factor of increasing importance in alleviating Canada's shortage of United States dollars has been the growing volume of imports of Capital arising, mainly, from the purchase of outstanding Canadian bonds by United States investors.

DEVELOPMENTS IN 1943

The balance of payments in 1943 reflects the external aspects of the later stages in the development of war production. War production continued to increase

in 1943 with the result that there were even greater needs for financing the production of munitions and other commodities for overseas account. But although exports on sterling area account were higher in 1943 the balance of credits on current account of $1,216 million was actually slightly lower than in 1942 as a result of the sharp increase in the overseas expenditures of the Canadian government on account of the armed services.

A large part of the food and munitions exported on British account in 1943 were goods provided as Mutual Aid and consequently did not give rise to any British financial liability. Australia also started to receive some goods under Mutual Aid in 1943. Total expenditures by the Canadian Mutual Aid Board for Empire countries in 1943 amounted to $502 million. These goods, provided under Mutual Aid, have been included with other exports in the balance of payments statements and consequently are reflected in the current account balances shown. To offset their inclusion among the credits, debits of similar size have been entered under the new "Mutual Aid" item representing the expenditures by the Canadian Mutual Aid Board. This new form of aid to Britain and other Allied Nations is in physical terms while the Billion Dollar Contribution of 1942 was aid expressed in financial terms although in effect a contribution of goods and services. Under Mutual Aid, the actual war supplies and services are provided for the Allied Nations requiring the aid directly by Canada.

Capital debits arising from the repurchase by Canada of the British equity in the fixed capital of war plants, amounting to $205 million and the repayment of $190 million by Canada of British working capital advances made to Canadian munitions producers earlier in the war, provided a considerable amount of the additional funds required to finance the British current account deficiency in 1943. Special receipts of U. S. dollars from the United Kingdom provided a means of meeting another part of the balance.

Developments in the balance of payments with the United States dollar area in 1943 were more diverse. The current account with this area was practically in equilibrium in contrast to the large debit balances in the earlier years of the war. Imports of materials and components necessary for the increased volume of production reached record levels. There were also large purchases of equipment in the United States for the Canadian armed services. But sales to the United States of Canadian munitions and other commodities were also at higher levels. In part, these represented larger exports of munitions and materials arising from the Hyde Park arrangements, but growing United States demands for grain and other commodities resulting from shortages accompanying the great expansion in war production in the United States, are also reflected in these increased credits.

There were other unusual receipts of United States dollars in 1943 as well. United States government expenditures on defence activities in Canada such as the construction of the Alaska Highway, the Canol project, and the airfields in Northern Canada gave rise to large non-recurring receipts. Then, in addition to these unusual current receipts, there were also extraordinary large imports of capital from the United States from heavy United States purchases of outstanding issues of Canadian bonds. Early in 1943, there was also the special receipt of United States dollars from the United Kingdom in settlement of that part of the British deficit in Canada which was not met by other special means.

It should be noted, however, that although the shortage of United States dollars was alleviated in 1943, Canada's current account with the United States dollar area was only brought relatively close to equilibrium, for the first time since 1937, and the current account with the United States alone still showed a debit balance of $19 million, since large parts of the receipts of United States dollars were either on capital account or derived from transactions with other

countries.

The current account with the United States in 1943 and earlier years should also be considered in relation to the termination of the financial aspects of the Hyde Park Agreements and the accompanying financial settlements in 1944. As announced by the Minister of Finance in the House of Commons on April 21, 1944# -

> ".....During 1943, unanticipated developments, not related to the Hyde Park declaration, served to increase our supply of United States exchange beyond expectations, in spite of the steps taken to offset its expansion. The arrangement which was concluded with the United Treasury last month covered, therefore, a series of measures, to be taken by Canada, intended to reduce our balances to the agreed range. In addition to immediate payment for certain past purchases of United States equipment and supplies for which bills had not yet been presented, the Canadian government has undertaken to reimburse the United States for all the airfields constructed by the United States government in Canada and for the telephone line from Edmonton to the Alaska boundary also built by the United States government..... Further, a number of contracts placed by the United States army and navy in Canada will be cancelled. This procedure affects, of course, only a relatively small part of the United States contracts placed in Canada....."

In so far as these payments were for liabilities incurred in 1943 or earlier or were reimbursements for United States expenditures in Canada in 1943 or earlier, they would, from some points of view, represent additions to the current account deficits incurred with the United States in the same years. But since the balance of payments statements reflect cash payments the special payments to the United States in 1944 will be included in the statement for 1944 rather than in the earlier years.

CURRENT ACCOUNTS BETWEEN CANADA AND ALL COUNTRIES

(See Table I)

In 1943 total credits on current account with all countries of $4,064 million exceeded total current debits of $2,858 million by $1,206 million. This balance compares with credit balances on current account of $1,101 million in 1942, $491 million in 1941 and $126 million in 1939. The moderate increase in the credit balance in 1943 was due to a sharp increase in total debits as well as in credits whereas in the earlier years of the war credits were expanding much more rapidly than debits. The increase in current payments to the Sterling Area which exceeded the gain in credits in the same account, was particularly notable. Credits, debits and balance are, of course, at record levels and reflect the great expansion in the Canadian economy with the export of war production to the many theatres of war throughout the world.

It should be pointed out that the existence of these large credit balances on current account has not turned Canada into a creditor country on international investment account. Canada has, in fact, had credit balances on current account each year since 1933. Large parts of the credit balances in recent years do not give rise to any increases in Canadian assets abroad or decreases in Canadian liabilities abroad as is evident from the description of the balance of payments with the Sterling Area which appears later in this report.

External investments in Canada still exceed Canadian investments abroad by a very large margin. Before the war, British and foreign investments in Canada

#House of Commons Debates, April 21, 1944 p. 2290, 2291

were estimated at $6,765 million as at the end of 1937 and Canadian investments abroad were placed at $1,758 million, making a net indebtedness of about $5 billion. While there has been a sharp drop in British investments in Canada arising mainly out of the official repatriations in the early years of the war, there have been some substantial increases in United States investments in Canada during the war. American holdings of Canadian bonds have expanded as a result of the record levels of sales of outstanding bonds to the United States in the last few years. The value of United States investments in Canada has also increased with reinvestments of earnings. Accompanying this increase in United States investments in Canada there has been a steady liquidation by Canadians of holdings of United States securities.

As a result of these various changes, Canada's balance of long-term indebtedness at the present time is still very substantial. Indicative of the debtor position is the net payment of interest and dividends to external investors of $202 million which were made in 1943.

Table I - Current Account between Canada and All Countries

(millions of dollars)

Year	Credits	Debits	Net Credits
1937	1,593	1,413	+ 180
1938	1,361	1,261	+ 100
1939	1,457	1,331	+ 126
1940	1,766	1,627	+ 149
1941	2,458	1,967	+ 491
1942	3,376	2,275	+1101
1943	4,064	2,858	+1206

In order to reveal the financial and foreign exchange aspects of the international accounts produced by these wartime changes, it is necessary to divide the balance of payments statements into two clearly defined divisions for the reasons which have already been discussed, - the balance of payments between Canada and the Sterling Area, and the balance of payments between Canada and the rest of the world, with which Canada's dealings are on a United States dollar basis. Separate statements are therefore shown for transactions with Empire Countries and Non-Empire Countries. Insofar as was possible, the statement for Empire Countries represents the Sterling Area and the statement for Non-Empire Countries represents the United States dollar area during the war years. In the period before the introduction of exchange control by the nations of the British Commonwealth in September, 1939, the division into the two areas has less significance from a currency point of view, being only a division between Empire and Non-Empire countries.

CURRENT ACCOUNT WITH EMPIRE COUNTRIES

(See Tables II to IV)

The dominant characteristic of the balance of payments between Canada and the Sterling Area, a large excess of Canadian exports and other sources of balance of payments credits over imports and other debits, was again pronounced in 1943. But due to the sharp increase in the overseas expenditures of the Dominion government in connection with the Canadian forces overseas the net credits on current account in 1943 were $1,216 million compared with $1,269 million in 1942, $805 million in 1941, $419 million in 1940 and $176 million in 1939.

Table 2 - Current Account between Canada and Empire Countries

(millions of dollars)

Year	Credits	Debits	Net Credits
1937	565	406	+ 159
1938	508	337	+ 171
1939	502	326	+ 176
1940	822	403	+ 419
1941	1,321	516	+ 805
1942	1,826	557	+1269
1943	2,066	850	+1216

Total credits in the account with Empire countries continued to expand in 1943. The principal change occurred in merchandise exports which again increased considerably, but less rapidly than in 1942. While the gains were distributed among most commodities there was more concentration of the increases in munitions and food than in raw materials or other commodities. It should be noted, however, that these exports did not all give rise to British payments to Canada as the figures include as well as cash purchases the substantial amounts of munitions and food and other commodities which were supplied as Mutual Aid to the United Kingdom and Australia in 1943. For purposes of accounting goods and services provided as Mutual Aid are included as credits in the current account of the balance of payments and offset as debits in the special item representing expenditures by the Canadian Mutual Aid Board. Information on the detailed operations of the Board and its program and objectives will be found in the report of the Canadian Mutual Aid Board, May 20, 1943 to March 31, 1944. The total value of exports on Empire account, $1,763 million in 1943, compares with exports to Empire countries of $436 million in 1939. Exports on Canadian account such as equipment for the Canadian army in the United Kingdom are not included Credits on account of freight and shipping also increased in 1943, a general reflection of a larger movement of commodities which resulted in larger payments for inland freight on exports and heavier shipping expenditures in Canadian ports. Other expenditures on war services in Canada were slightly less than in 1942. Reduced cash contributions to air training were partly offset by larger payments on account of internment operations and various other services. It should be noted that the United Kingdom has incurred liabilities in connection with air training which have not yet been settled.

Total debits in the current account with Empire countries increased more sharply in 1943 than in any earlier year being $850 million compared with $557 million in 1942 and $326 million in 1939. The increase was almost entirely due to the expansion in the expenditures overseas on account of the Canadian forces abroad which more than doubled in 1943, being $499 million compared with $191 million in 1942. A large element in the increase arose from the assumption by Canada in 1943 of the capital cost and maintenance of 35 additional overseas squadrons of the Royal Canadian Air Force. Other expenditures also were higher as the number of men overseas increased. Imports from Empire countries which had formerly been the principal source of debits declined to $200 million in 1943 and were evenly divided between the United Kingdom and other Empire countries. This total was still higher than in 1939, however, when imports from Empire countries were $177 million. The comparable figures in succeeding years were $236 million in 1940, $279 million in 1941 and $226 million in 1942. These imports do not include goods which are not purchased by Canada; such as contributions in kind made by the Government of the United Kingdom to the Combined Air Training Organization and the equipment imported for the R. A. F. Special Schools in Canada. Payments to Empire countries on

account of freight and shipping were at about the same level in 1943 as in 1942 but higher than before the war, increased costs of ocean transportation being reflected. Interest and dividend payments of $52 million in 1943 were likewise about the same level as in 1942. This marks a sharp decline from the pre-war level, however, when interest and dividends paid on British investments in Canada ranged from $87 million in 1937 to $80 million in 1939. The decline is principally a reflection of the elimination of interest payments on the Canadian bonds which have been repatriated since the start of the war as payments of dividends to shareholders in the Sterling Area have not varied much during the period.

The current account with the Sterling Area, shown in the various accompanying tables, is divided into transactions between Canada and the United Kingdom and Canada and Other Empire Countries. Generally, exports which were originally made on British account and were later diverted to other countries have been included in the statement of transactions between Canada and the United Kingdom. The statements with Other Empire Countries therefore generally reflect transactions originally made on their own account except in 1940 when exports on British account shipped to Egypt and other Empire Countries were included in the statements with Other Empire Countries. Analysis of official expenditures on war production has enabled this division to be made more satisfactorily for the years from 1941 on.

CAPITAL ACCOUNT TRANSACTIONS WITH EMPIRE COUNTRIES

Capital receipts by Canada from Empire Countries in 1943 amounted to $20 million. The principal part of this was made up of repayments by the Government of the United Kingdom on the $700 million loan. Private capital receipts were relatively small and represented transactions such as distributions of estates and trusts.

Gross capital debits amounted to $586 million in 1943, exclusive of Mutual Aid and the special purchase of United States dollars. Of this amount $71 million represents privately financed capital payments by Canada. Private retirements of securities, purchases of securities, repayments of mortgages and loans, settlements of estates and trusts and insurance company transactions make up most of this $71 million. The remaining $515 million is composed of debits connected with official transactions which are shown in detail in Table 3.

Mutual Aid, of course, was the principal means of meeting the residual needs of Empire countries in 1943. As already explained, this aid took the form of shipments of food and munitions to the United Kingdom and Australia, the costs of which were met out of the Mutual Aid Appropriation. Expenditures by the Mutual Aid Board in 1943 for goods and services allocated to the United Kingdom and Australia were $502 million. But besides Mutual Aid there were the substantial capital debits on government account totalling $515 million which also contributed towards financing the residual needs of the United Kingdom. The largest part of this total originates in the payments to the United Kingdom government in connection with the repatriation of production assets. Payments for the British equity in the fixed capital of munitions plants constructed during the war amounted to $205 million. In addition, there were cash repayments of $190 million of working capital which the United Kingdom had formerly advanced to the Department of Munitions and Supply and contractors. The official repatriation of securities only resulted in a further transfer of $4 million in 1943 in contrast to $296 million in 1942 and a total of $701 million to the end of 1943. Other special payments in 1943 amounted to $116 million. This item is made up of a number of different official transactions which were mainly for the purpose of adjusting intergovernmental transactions and various currency settlements adjusting special transactions.

In addition, there were special receipts of United States dollars from the United Kingdom amounting to $143 million in terms of Canadian dollars. These receipts were a means of settling part of the British deficit in Canada comparable to the special gold transactions in the earlier years of the war. A summary of capital transactions between Canada and Empire Countries, between 1939 and 1943, appears in Table 3.

Table 3 - Capital Transactions between Canada and Empire Countries

	1939	1940	1941	1942	1943
	(millions of Canadian dollars)				
Capital Credits					
Decrease in £ balances	-	-	-	818	-
Other credits	97	116	181	66	20
Total credits	97	116	181	884	20
Capital Debits					
Private transactions	105	111	73	59	71
Official transactions -					
Repatriation of securities	75	137	189	296	4
Repatriation of production Assets - Fixed capital	-	-	-	-	205
Working capital	-	-	-	-	190
Increase in £ balances	-	82	728	-	-
Special loan to United Kingdom	-	-	-	700	-
Special payments	-	-	-	74	116
Total debits as above	180	330	990	1,129	586
Special Gold and United States dollar Transactions	2	248	-	23	143
Billion Dollar Contribution	-	-	-	1,000	-
Mutual Aid (1)	-	-	-	-	502(1)

CURRENT TRANSACTIONS WITH NON-EMPIRE COUNTRIES

(See Tables V - VII)

It should be noted that while the current account shown in the statements for Non-Empire countries reflects the balance of transactions with these countries it does not exactly reflect the current balance of United States dollar transactions. In 1943, besides including transactions in Canadian dollars with the United States dollar area it includes some special transactions. For example, credits are shown in the current account with other foreign countries to reflect Mutual Aid to Russia and the gift of wheat to Greece which are offset by special debit entries outside of the current account. Similarly, there are debit entries in the current account with other foreign countries representing mainly personal remittances which are not made in United States dollars or related currencies. These debits are offset by adjusting credits in the capital account with Non-Empire countries.

(1) The amount of expenditures from the Mutual Aid appropriation in 1943.

Table 4 - Current Account between Canada and Non-Empire Countries
(millions of Canadian dollars)

Year	Credits Total Non-Empire	Debits Total Non-Empire	Net Balances: Total Non Empire	Net Balances: United States	Net Balances: Other Foreign
1937	1,028	1,007	+ 21	- 77	+98
1938	853	924	- 71	-149	+78
1939	955	1,005	- 50	-116	+66
1940	954	1,224	-270	-292	+22
1941	1,137	1,451	-314	-318	+ 4
1942	1,550	1,718	-168	-180	+12
1943	1,998	2,008	- 10	- 19	+ 9

A marked change occurred in the current account with the United States dollar area in 1943. In contrast to the debit balances of $314 million in 1941 and $168 million in 1942, the account was virtually in equilibrium in 1943, net debits amounting to $10 million. While gross debits continued to rise as has been the case in each wartime year, there were even sharper gains in gross receipts. As these gains were most pronounced in the last half of the year with the large sales of grain, the transition in the current account mainly took place in that period. In each year from 1937 to 1943 there have been deficits in the current account with the United States which have been partly offset by credit balances from transactions with other countries. These credit balances, arising mainly from trade with other foreign countries, have been greatly reduced by the elimination of exports to most areas of Continental Europe and Asia. The deficit with the United States in 1943 of $19 million was relatively small in relation to the deficits in earlier years of the war.

The rapid and continued rise in the value of imports during the war has been the primary factor in the expansion in payments to the United States dollar area. Imports from the United States have grown steadily from $472 million in 1939 to $702 million in 1940, $910 million in 1941, $1,116 million in 1942 and $1,311 million in 1943. Imports on British or other Allied account which are not paid for by Canada, are excluded from these figures. The demand for imports is, of course, closely related to the war production program. Imports of capital equipment have been an important element, especially in the earlier years of the war. But as munitions production has expanded imports of materials, fuel and components have grown rapidly and represent a major part of the increases in 1942 and 1943. An important part of these United States dollar requirements arises from the United States dollar content of production in Canada for the United Kingdom and other overseas countries. Direct government purchases in the United States of aircraft and other equipment for the armed forces have also been substantial and were particularly large in 1943. While the high level of civilian incomes has led to heavy demands for commodities imported from the United States, the range of these has been limited by the War Exchange Conservation Act and the short supply of many civilian goods. The value of imports from other foreign countries has not fluctuated widely between 1937 and 1943. The United States, however, has, in recent year, become the source of supply of some commodities formerly imported from overseas.

Although exports to the United States dollar area have increased each year during the war there has been less regularity in the increases than in the case of imports. The greatest expansion occurred in 1942 and 1943 when exports were $974 million and $1,286 million, respectively, in contrast with $634 million in 1941. The gains in earlier years were more moderate, exports to non-Empire countries in

1939 being $470 million, and in 1940, $503 million. The increases in exports to the United States have been greater than to all non-Empire countries, however, as export credits from other foreign countries have declined each year. The great increase in exports in 1942 and 1943 is, of course, to a large extent a result of transactions under the agreements entered into between the Canadian Prime Minister and the President of the United States at Hyde Park in April, 1941. Exports resulting from the agreements first became substantial in 1942 when deliveries of munitions, metals and war production rapidly expanded. The Hyde Park element in the total exports to the United States is covered by the cash received for deliveries of production rather than the value of exports since the goods themselves were not all shipped to destinations in the United States. Some repayments and capital advances in connection with production under the agreements, received in 1941 and 1942, have been entered as credits in the capital account to be offset as deliveries or repyaments take place. It is notable, however, that although Hyde Park receipts provided a very large new source of export credits in 1942 and 1943, these receipts represented only a minor part of the total receipts from exports to the United States in each year. Receipts from the sale of raw materials and other civilian commodities still constituted the major part of export receipts, being at record levels in both 1942 and 1943. In the latter year, a large portion of the receipts originated in the extraordinarily large sales of Canadian wheat and feed grains to the United States which had attained an unprecedented volume by the end of the year.

Net exports of non-monetary gold produced an equivalent of $142 million Canadian in 1943 compared with $184 million in 1942 and $204 million in 1941. This reflects the sharp decline in gold production resulting from manpower transfers and higher costs of production.

Tourist and travel expenditures yielded net credits of $53 million in 1943 compared with $55 million in 1942 and $90 million in 1941. While total receipts and payments both increased in 1943 the rise in payments was slightly larger, reducing the credit balance. The principal reason for the decline in net receipts in 1942 and 1943 from the level of 1941 and earlier years was the sharp contraction in automobile travel. The decline in the expenditures by automobile travellers in 1943, however, was more than offset by increases in the expenditures of persons travelling by rail with the result that total American travel expenditures in Canada were $87 million in 1943 compared with $79 million in 1942. Canadian travel expenditures in the United States increased from $24 million in 1942 to $34 million in 1943, - a probable reflection of increased business and military travel. While the expenditures in Canada of travellers from all non-Empire countries were considerably higher in the three pre-war years than in any year since, being estimated at $154 million in 1937, Canadian travel expenditures in non-Empire countries were also higher before the war, being estimated at $69 million in 1937. During the war, Canadian expenditures involving the use of United States dollars have been sharply reduced as a result of the official restrictions on pleasure travel introduced in July, 1940. These restrictions were lessened in May, 1944 as a result of the improved United States dollar situation.

Net payments to the United States dollar area on account of interest and dividends were $155 million in 1943 compared with $159 million in 1942 and $163 million in 1941. There were declines in both receipts and payments in 1943. The principal reason for the decline in receipts was the reduced income from direct investments in the United States which had been unusually heavy in 1942. Total payments of interest and dividends on investments in Canada owned by residents of the United States dollar area were also lower in 1943, being $205 million compared with $215 million in 1942. The decline in dividend payments was greater than this during 1943 since interest payments continued to increase as a result of the heavy purchases of outstanding Canadian bonds by United States investors in recent years. The net debits of $155 million in 1943 compare with the pre-war figures of $146 million in

1937, $163 million in 1938 and $174 million in 1939.

A further expansion occurred in the net debits on account of freight and shipping with the United States dollar area in 1943 Net debits were $107 million in 1943 compared with $85 million in 1942, $65 million in 1941 and a pre-war level of $21 million in 1939. The volume of imports which has risen each year of the war is one of the chief reasons for the steady expansion in debits. Growing imports of coal and metal products have been responsible for a large part of the inland freight. Besides the freight on imports for consumption there has been freight on goods imported in connection with United States activities in Northwestern Canada such as the Alaska Highway and Carol projects. Payments for ocean freight increased sharply in 1942 and 1943 with the rise in the costs of ocean transportation. The earnings of Canadian railways from freight on exports have also grown rapidly in recent years. There have also been substantial receipts for freight on goods carried to Northwestern Canada for the United States army. The receipts which Canada has from in transit traffic have also grown. Although gross credits have increased sharply, however, the gains in debits have been greater with the consequent growth in the balance of debits on freight account.

All other current transactions resulted in a credit balance of $149 million in 1943 compared with a credit balance of $43 million in 1942 and substantial debit balances in preceding years. As it includes some non-recurring items the composition of this item varies in the different years. Wartime factors were responsible for the credit balance in 1943. The expenditures by the United States government on the construction of the Alaska Highway, airfields, the Carol project and other undertakings in Canada were particularly heavy and were the reason for such unusually large receipts of United States dollars as activities on these projects were at their peak in 1943. It should be noted that part of the United States government expenditures in Canada were paid back in 1944 when Canada reimbursed the United States for the airfields and telephone line in the financial settlements already referred to. Newfoundland's balance of United States receipts which are included in the item were also unusually heavy in 1942 and 1943, mainly because of expenditures of the United States government on bases in Newfoundland. A further description of the content of this item is given in the statistical notes.

CAPITAL TRANSACTIONS WITH NON-EMPIRE COUNTRIES

Capital payments by Canada to non-Empire countries, are, of course, subject to restrictions imposed by foreign exchange control. While, in general, payments were allowed only in the case of maturing contractual commitments, certain other capital transfers were permitted. Most important among these in 1943 was the calling for redemption of two Dominion of Canada bond issues held in the United States. Among the other transfers permitted in 1943 were some non-resident withdrawals of Canadian funds acquired from the liquidation of certain direct investments in Canada.

Gross capital debits in the account with Non-Empire countries in 1943 amounted to $274 million. Redemptions of Canadian bonds held in the United States represents a large part of this. There were also substantial debit entries reflecting the refinancing of Canadian bond issues in the United States. Repayments of mortgages, loans and advances and other contractual obligations constituted another part of the cash payments along with some liquidations of non-resident direct investment in Canada. The repayments of some prepayments and capital advances arising out of the Hyde Park agreements are included. In 1943, there were also debits in connection with changes in private balances and other short term assets as well as debit entries reflecting an increase in Canada's official reserves of gold and

and United States dollars. As pointed out elsewhere, a concentration of unusual receipts of United States dollars in 1943 from various extraordinary sources, contributed to this increase and in 1944 a series of measures were undertaken by Canada in connection with the termination of the financial aspects of the Hyde Park declaration, which involved substantial payments out of accumulated balances. There is also a debit entry in the capital account offsetting the gift of wheat to Greece by the Canadian government.

Capital credits with Non-Empire countries totalled $657 million in 1943. The proceeds from the purchase of securities by investors in the United States was the largest single source of capital credits. Transactions in outstanding Canadian bonds represented the largest part of this import of capital. These sales to the United States were much heavier even than in 1942, the previous record year. As in 1942, the net sales were concentrated in Dominions, Dominion guarantees and Provincials. The high prices for these securities prevailing in United States bond markets in 1942 and 1943 were a factor in this movement of securities from Canada. Sales of refunding issues of Canadian bonds in the United States in 1943 were substantial also, totalling more than in any year since 1939. A Dominion refinancing issue of $90 million was the most prominent of these issues but there were some new provincial and corporation issues as well. Sales of Canadian domestic securities to non-residents for Canadian dollars were also substantial. The liquidation of Canadian holdings of United States securities was also heavier in 1943 than in immediately preceding years. Most of these took the form of sales of United States stocks.

Capital credits also originated in various increases in other forms of United States investments in Canada and decreases in other forms of Canadian assets in the United States and elsewhere. These credits were in connection with direct investments, insurance transactions, estates and trusts, real estate, short-term financing, repayments, etc. There were also credits to account for various exchange adjustments arising, mainly, out of transactions with the Sterling Area.

There were special receipts of United States dollars from the United Kingdom amounting to $143 million on balance in terms of Canadian dollars in 1943. These receipts were a means of settling part of the British deficiency of Canadian dollars.

Table 5 - Capital Transactions Between Canada and Non-Empire Countries

(millions of dollars)

	1937	1938	1939	1940	1941	1942	1943
New issues of Canadian securities	86	38	155	-	(2)	(2)	146
Retirements of Canadian securities	140	79	131	41	31(2)	25(2)	308
Net new issues (+) or net retirements (-)	-54	-41	+24	-41	-31	-25	-162
Net Sales (+) or Net Purchases (-) of Outstanding Securities							
Canadian securities	-18	+48	+69	+15	+46	+135	+256
United States and foreign	- 7	- 7	+18	+18	+28	+ 24	+ 44
Other Capital Movements and Adjusting Entries							
Credits	418(1)	277(1)	219(1)	134	311	192	211
Debits	487(1)	336(1)	383(1)	100	42	189	466
Gross Credits	504	356	461	167	385	351	657
Gross Debits	652	415	514	141	73	214	774

(1) Including offsetting security transactions amounting to 400 in 1937, 276 in 1938 and 203 in 1939. In the period of exchange control such transactions are omitted as purchases represent, in the main, switches of securities.

(2) Excluding refunding issues.

STATISTICAL NOTES

Merchandise Trade

While export and import statistics are the principal source used for this item, they have been adjusted to bring them more into conformity with payments in the two currency areas into which the balance of payments statements are divided.

Where data on international payments for war supplies through official channels were available these have been substituted for the value of goods exported. Thus, in the years 1941 to 1943, British payments through official channels for war supplies and food, and payments by the United States government for war supplies and metals exported under the Hyde Park agreements have been entered as credits in the merchandise account rather than the value of the goods exported. Similarly, in 1943 the expenditures from the Mutual Aid Appropriation on account of the various countries are reflected rather than the commodities exported. Since war supplies purchased by the British and United States governments have been shipped to various destinations this substitution of financial data on payments for the value of goods shipped has been a major adjustment necessary in the construction of balance of payments statements with the two currency areas in 1941, 1942 and 1943. The figures in the merchandise item of the tables are accordingly indicative of international payments rather than of shipments of goods to the various countries and areas. Exports are also adjusted on account of wheat and other grain movements for storage. Trade between Canada and Newfoundland has been excluded and shipments of merchandise on Canadian account such as equipment and supplies for the Canadian forces overseas, Red Cross supplies and private gifts have also been deducted from the exports as no foreign exchange accrues from these transactions.

Imports of merchandise into Canada for the account of British or Allied Governments have also been deducted from the trade figures. These deductions cover such imports as goods which the British government has shipped to Canada as part of its contribution to the Combined Air Training Organization and equipment and supplies for the R. A. F. Special Schools in Canada before their absorption into the combined organization. Imports from the United States which have been deducted, are principally made up of aircraft, aircraft engines and parts and other military equipment, and materials for British or Allied organizations in Canada which are not paid for by Canada. Imports are adjusted for warehousing and for over-valuation. In 1943 payments made on account by the Canadian government for military equipment and supplies purchased in the United States under the "Canpay" procedure are reflected in the item of imports from the United States rather than the goods imported during the period. Under this procedure certain goods are purchased from the government of the United States through the Office of Lend Lease Administration for reasons of procurement and priority.

As a result of these adjustments, the merchandise item is more representative of the international payments made between Canada and the various countries and areas shown during the periods covered. There is still, however, the possibility of divergencies between the time of payment and the time of import or export in the large volume of trade which continues to flow through private channels although some adjustment for these in the case of intracompany transactions appears elsewhere in the balance of payments.

Net Exports of Non-Monetary Gold

This item is the value of "Net Exports of Non-Monetary Gold" as computed by the Bank of Canada and explained on page 152 of the September, 1939, Bank of Canada

Statistical Summary. The figures correspond roughly to the value of current production in Canada. The total net exports have been shown in the current account with the United States although in the pre-war period there were some exports of gold to overseas countries arising out of temporary market conditions.

Tourist Expenditures

Estimates of tourist expenditures have been greatly improved in recent years. Through the cooperation with the Dominion Bureau of Statistics of the Customs Division of the Department of National Revenue and the Immigration Branch of the Department of Mines and Resources new methods of estimating tourist expenditures, first introduced in 1940, have resulted in a greater volume of data than was formerly available. In 1941, a more extensive organization of tourist statistics procedure was undertaken. Progress was made, especially in the estimation of the expenditures of automobile tourists. A more uniformly classified count of the automobile traffic was obtained as a basic record of traffic. In addition, larger and more representative samples of tourist expenditures were collected. In 1943, 82% of all the United States motorists entering Canada on a travellers' vehicle permit reported their total expenditures in Canada. At the same time, a sample of approximately 52% was obtained from short-term local United States tourists crossing into Canada. Virtually all of the expenditures of Canadian motorists in the United States were also covered by a sample which exceeded 97% of the total traffic.

The estimates of expenditures in the years, 1937, 1938 and 1939 have been revised in the light of information accumulated in recent years, whereas the estimates for 1940 - 1943 directly reflect the new procedure developed in 1941. In the revision of the pre-war years the new data on expenditures accumulated during the war have been related to the statistics on the volume of traffic before the war. Since this method has some arbitrary aspects the resulting estimates for the pre-war years have not as substantial a basis as the estimates for later years. It is believed, however, that they are fairly representative of the level of expenditures in the pre-war years. The new estimates point to much lower levels of expenditures in the pre-war years, particularly in the case of expenditures of United States travellers in Canada, than the estimates originally published.

Interest and Dividends on Securities

This item is limited to interest on bonds and debentures and dividends paid on stock. The earnings of externally owned concerns which are reinvested in Canada are not included. Some remittances of income on investments other than securities, for which data are available for the period from 1940 to 1943 for the first time, have been included in the item "All Other Current Transactions". Estimates of these miscellaneous income items have been included in the latter item for the pre-war years as well.

Revenue accruing to residents of enemy occupied and proscribed territory from investments in Canada, is entered as a debit in the interest and dividend item, and offset by a credit entry in the capital account.

Freight and Shipping

This item includes estimates covering ocean shipping operations, freight paid to United States railways on imports, inland freight earned by Canadian transportation companies carrying exports to the United States border or Canadian ocean ports, revenue received by Canada from intransit traffic, and payments for marine and war-risk insurance on goods imported into Canada from overseas. The accounts between the two currency areas have been adjusted to allow for the U. S. dollar

cost of prepaid freight on exports to the Sterling Area.

Ocean shipping transactions include: freight paid to British or foreign ships on imports, expenditures abroad on account of Canadian ships, payments by Canadian companies for the charter of British or foreign ships, earnings of Canadian ships on exports and on traffic between foreign ports, revenue of Canadian companies from the charter of ships and expenditures in Canada on account of British and foreign ships.

All Other Current Transactions

This item includes government expenditures, a wide range of miscellaneous transactions mostly in the field of services, and some unusual transactions which have occurred since the war, and which are not readily classified in any other item. In comparisons of this item from one year to another, its varied composition should be taken into consideration. The treatment of some types of transactions also varies during the period, the net balance being entered in some years and the gross transactions in others.

Government expenditures are more important in the years 1941 - 1943 than in previous years and represent the bulk of the item in the account with Empire Countries in these years. The expenditures of the Dominion government in connection with the maintenance of the Canadian armed forces overseas is the most important part of the government expenditures among the debits, and the expenditures of the British government on air training and other wartime activities in Canada, and the expenditures of Australia and New Zealand on air training are the most important among the credit entries for government expenditures in the account with Empire Countries. Payments by the Canadian government for imports of goods and by the British or Allied governments for goods exported, are, of course, not included in this item as they are part of the item "Merchandise Trade". Nor does this item include government transactions belonging to the capital account such as official repatriations, changes in official balances and capital expenditures by the United Kingdom Government.

Also included are variable transactions such as Newfoundland's balance of United States dollar receipts which, from 1941 to 1943, were heavier than usual owing to the expenditures of the United States Government on bases in Newfoundland. The expenditures of the United States Government on the Alaska Highway and other developments in Canada are also an important source of credits included in 1942 and 1943. In the latter year these expenditures were so heavy that they became a dominant element in the credit item.

Among the miscellaneous transactions which have been consolidated into this item are personal and immigrant remittances, religious and benevolent remittances, war funds and other private remittances to the armed forces overseas, motion picture and other royalties, earnings of Canadian residents employed in the United States and United States residents employed in Canada, commercial and financial services, telegraph and cable, professional, technical and management services, operating expenses of offices and agencies, and other sundry services. While these personal remittances and service transactions constituted the bulk of the item before the war they now represent a minor part due to the great expansion in government expenditures on services mentioned above.

The item also includes miscellaneous remittances of income for which data first became available from sources developed in 1940. These remittances cover interest on mortgages and loans, rents, crop share rentals, profits from speculation and certain types of business, income received by Canadians from foreign

estates and trusts, etc. Estimates of this miscellaneous income have been included for the pre-war years as well.

Balancing Item

This is a balancing item between the current and capital accounts, and is a reflection of errors or omissions in the statements since in a perfect balance of payments statement, the net balances in the current account and the capital account would exactly offset one another. In the years 1940 to 1943 this relationship exists in the accounts with the Empire and the Non-Empire as well as in the statement with all countries due to exchange control and the consequent existence of two distinct accounts. In the years 1937 to 1939 this relationship only applies to the statement for all countries since in the period before exchange control, balances in the account with sterling area countries were freely convertible into United States dollars.

While the causes of the residual cannot be identified with certainty there have been situations apparent from time to time which appear to have contributed to the residual. Factors connected with the relationships between the movement of goods and payments are particularly elusive. In 1937, however, it is likely that the heavy exports in that year, particularly of newsprint, which were not all paid for in 1937, contributed to the residual which indicated a surplus of credits. In 1938 and 1939 it is possible that the shortage of credits suggested by the residual is partly the result of imports of refugee capital from Europe not being completely reflected in the statement. It is not improbable that the large residual with the Sterling Area in 1940 is a reflection of some working capital advances by the British Government to contractors in Canada in the early stages of the war production program which were not all covered in the statement.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1937 - 1943.

TABLE I

TRANSACTIONS BETWEEN CANADA AND ALL COUNTRIES.

(Millions of Canadian dollars)

	1937	1938	1939	1940	1941	1942	1943
A. CREDITS - WITH ALL COUNTRIES							
Merchandise exports-after adjustment	1,041	844	906	1,202	1,732	2,515	3,050
Net exports of non-monetary gold	145	161	184	203	204	184	142
Tourist and travel expenditures	166	149	149	104	111	81	88
Interest and dividends	76	66	57	52	60	67	59
Freight and shipping	112	95	102	138	185	221	288
All other current credits	53	46	59	77	166	308	437
Total Current Credits	1,593	1,361	1,457	1,776	2,458	3,376	4,064
Special Gold Transactions (2)	-	-	2	248	-	23	143
Capital Credits	622	458	558	283	566	1,235	677
B. DEBITS - WITH ALL COUNTRIES							
Merchandise imports-after adjustment	776	649	713	1,006	1,264	1,406	1,579
Tourist and travel expenditures	87	86	81	43	21	23	36
Interest and dividends	302	307	306	313	286	270	261
Freight and shipping	137	105	119	132	167	228	294
All other current debits	111	114	112	133	229	345	688
Total Current Debits	1,413	1,261	1,331	1,627	1,967	2,275	2,858
Special Gold Transactions (2)	-	-	2	248	-	23	143
Capital Debits	794	570	694	471	1,063	1,343	1,360
Billion Dollar Contribution	-	-	-	-	-	1,000	-
Mutual Aid	-	-	-	-		-	511
C. NET BALANCES - WITH ALL COUNTRIES							
Merchandise trade-after adjustment	+ 265	+ 195	+ 193	+ 196	+ 468	+1,109	+1,471
Net exports of non-monetary gold	+ 145	+ 161	+ 184	+ 203	+ 204	+ 184	+ 142
Tourist and travel expenditures	+ 79	+ 63	+ 68	+ 61	+ 90	+ 55	+ 52
Interest and dividends	- 226	- 241	- 249	- 261	- 226	- 203	- 202
Freight and shipping	- 25	- 10	- 17	+ 6	+ 18	- 7	- 6
All other current transactions	- 58	- 68	- 53	- 56	- 63	- 37	- 251
Total Current Account	+ 180	+ 100	+ 126	+ 149	+ 491	+1,101	+1,206
Special Gold Transactions (2)	-	-	-	-	-	-	-
Capital Accounts	- 172	- 112	- 136	- 188	- 497	- 108	- 683
Billion Dollar Contribution	-	-	-	-	-	-1,000	-
Mutual Aid	-	-	-	-	-	-	- 511
Balancing Item (1)	- 8	+ 12	+ 10	+ 39	+ 6	+ 7	- 12
	- 180	- 100	- 126	- 149	- 491	-1,101	-1,206

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically.

(2) This represents gold or United States dollars received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1937 - 1943

TABLE II

TRANSACTIONS BETWEEN CANADA AND EMPIRE COUNTRIES.
(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943
A. CREDITS - WITH EMPIRE COUNTRIES							
Merchandise exports-after adjustment	493	442	436	699	1,098	1,541	1,763
Tourist and travel expenditures	12	10	9	6	3	2	1
Interest and dividends	7	5	5	3	5	7	5
Freight and shipping	45	43	43	76	119	127	148
War Services	-	-	-	20	74	130	128
All other current credits	8	8	9	18	22	19	21
Total Current Credits	565	508	502	822	1,321	1,826	2,066
Capital Credits	118	102	97	116	181	884	20
B. DEBITS - WITH EMPIRE COUNTRIES							
Merchandise imports-after adjustment	235	184	177	236	279	226	200
Tourist and travel expenditures	18	17	13	3	3	2	2
Interest and dividends	87	83	80	76	68	51	52
Freight and shipping	47	34	39	36	36	49	47
Canadian Overseas expenditures	-	-	-	29	97	191	499
All other current debits	19	19	17	23	33	38	50
Total Current Debits	406	337	326	403	516	557	850
Special Gold Transactions(2)	-	-	2	248	-	23	143
Capital Debits	142	155	180	330	990	1,129	586
Billion Dollar Contribution	-	-	-	-	-	1,000	-
Mutual Aid	-	-	-	-	-	-	502
C. NET BALANCES - WITH EMPIRE COUNTRIES							
Merchandise trade-after adjustment	+ 258	+ 258	+ 259	+ 463	+ 819	+1,315	+1,563
Tourist and travel expenditures	- 6	- 7	- 4	+ 3	-	-	- 1
Interest and dividends	- 80	- 78	- 75	- 73	- 63	- 44	- 47
Freight and shipping	- 2	+ 9	+ 4	+ 40	+ 83	+ 78	+ 101
All other current transactions	- 11	- 11	- 8	- 14	- 34	- 80	- 400
Total Current Account	+ 159	+ 171	+ 176	+ 419	+ 805	+1,269	+1,216
Special Gold Transactions(2)	-	-	- 2	- 248	-	- 23	- 143
Capital Account	- 24	- 53	- 83	- 214	- 809	- 245	- 566
Billion Dollar Contribution	-	-	-	-	-	-1,000	-
Mutual Aid	-	-	-	-	-	-	- 502
Balancing Item(1)	(1)	(1)	(1)	+ 43	+ 4	- 1	- 5
				- 419	- 805	-1,269	-1,216

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically. In the statements of transactions with Empire Countries and with Non-Empire Countries it reflects mutilateral settlements in the period before exchange control.

(2) This represents gold and United States dollars received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1937 - 1943.

TABLE III

CURRENT TRANSACTIONS BETWEEN CANADA AND THE UNITED KINGDOM
(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943
A. CURRENT CREDITS - WITH THE UNITED KINGDOM							
Merchandise exports-after adjustment	385	337	332	542	914	1,424	1,636
Tourist and travel expenditures	11	8	7	5	2	2	1
Interest and dividends	2	2	2	2	4	5	4
Freight and shipping	38	34	34	60	110	114	128
All other current credits	8	8	9	27	63	112	120
Total Current Credits	444	389	384	636	1,093	1,657	1,889
B. CURRENT DEBITS - WITH THE UNITED KINGDOM							
Merchandise imports-after adjustment	148	119	106	133	137	116	100
Tourist and travel expenditures	16	15	11	2	2	2	2
Interest and dividends	85	81	78	74	66	50	51
Freight and shipping	43	30	36	32	28	41	40
All other current debits	17	17	16	52	126	225	547
Total Current Debits	309	262	247	293	359	434	740
C. NET CURRENT BALANCES - WITH THE UNITED KINGDOM							
Merchandise trade-after adjustment	+ 237	+ 218	+ 226	+ 409	+ 777	+1,308	+1.536
Tourist and travel expenditures	- 5	- 7	- 4	+ 3	-	-	- 1
Interest and dividends	- 83	- 79	- 76	- 72	- 62	- 45	- 47
Freight and shipping	- 5	+ 4	- 2	+ 28	+ 82	+ 73	+ 88
All other current transactions	- 9	- 9	- 7	- 25	- 63	- 113	- 427
Total Current Account	+ 135	+ 127	+ 137	+ 343	+ 734	+1,223	+1,149

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1937 - 1943.

TABLE IV

CURRENT TRANSACTIONS BETWEEN CANADA AND OTHER EMPIRE COUNTRIES
(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943
A. CURRENT CREDITS - WITH OTHER EMPIRE COUNTRIES							
Merchandise exports-after adjustment	108	105	104	157	184	117	127
Tourist and travel expenditures	1	2	2	1	1	(1)	(1)
Interest and dividends	5	3	3	1	1	2	1
Freight and shipping	7	9	9	16	9	13	20
All other current credits	(1)	(1)	(1)	11	33	37	29
Total Current Credits	121	119	118	186	228	169	177
B. CURRENT DEBITS - WITH OTHER EMPIRE COUNTRIES							
Merchandise imports-after adjustment	87	65	71	103	142	110	100
Tourist and travel expenditures	2	2	2	1	1	(1)	(1)
Interest and dividends	2	2	2	2	2	1	1
Freight and shipping	4	4	3	4	8	8	7
All other current debits	2	2	1	(1)	4	4	2
Total Current Debits	97	75	79	110	157	123	110
C. NET CURRENT BALANCES - WITH OTHER EMPIRE COUNTRIES							
Merchandise trade-after adjustment	+ 21	+ 40	+ 33	+ 54	+ 42	+ 7	+ 27
Tourist and travel expenditures	- 1	-	-	-	-	-	-
Interest and dividends	+ 3	+ 1	+ 1	- 1	- 1	+ 1	-
Freight and shipping	+ 3	+ 5	+ 6	+ 12	+ 1	+ 5	+ 13
All other current transactions	- 2	- 2	- 1	+ 11	+ 29	+ 33	+ 27
Total Current Account	+ 24	+ 44	+ 39	+ 76	+ 71	+ 46	+ 67

(1) Less than $500,000

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1937 - 1943.

TABLE V.

TRANSACTIONS BETWEEN CANADA AND NON-EMPIRE COUNTRIES
(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943
A. CREDITS - WITH NON-EMPIRE COUNTRIES							
Merchandise exports-after adjustment	548	402	470	503	634	974	1,287
Net exports of non-monetary gold	145	161	184	203	204	184	142
Tourist and travel expenditures	154	139	140	98	108	79	87
Interest and dividends	69	61	52	49	55	60	54
Freight and shipping	67	52	59	62	66	94	140
All other current credits	45	38	50	39	70	159	288
Total Current Credits	1,028	853	955	954	1,137	1,550	1,998
Special Gold Transactions(2)	-	-	2	248	-	23	143
Capital Credits	504	356	461	167	385	351	657
B. DEBITS - WITH NON-EMPIRE COUNTRIES							
Merchandise imports-after adjustment	541	465	536	770	985	1,180	1,379
Tourist and travel expenditures	69	69	68	40	18	24	34
Interest and dividends	215	224	226	237	218	219	209
Freight and shipping	90	71	80	96	131	179	247
All other current debits	92	95	95	81	99	116	139
Total Current Debits	1,007	924	1,005	1,224	1,451	1,718	2,008
Capital Debits	652	415	514	141	73	214	774
Mutual Aid	-	-	-	-	-	-	9
C. NET BALANCES - WITH NON-EMPIRE COUNTRIES							
Merchandise trade-after adjustment	+ 7	- 63	- 66	- 267	- 351	- 206	- 92
Net exports of non-monetary gold	+ 145	+ 161	+ 184	+ 203	+ 204	+ 184	+ 142
Tourist and travel expenditures	+ 85	+ 70	+ 72	+ 58	+ 90	+ 55	+ 53
Interest and dividends	- 146	- 163	- 174	- 188	- 163	- 159	- 155
Freight and shipping	- 23	- 19	- 21	- 34	- 65	- 85	- 107
All other current transactions	- 47	- 57	- 45	- 42	- 29	+ 43	+ 149
Total Current Account	+ 21	- 71	- 50	- 270	- 314	- 168	- 10
Special Gold Transactions(2)	-	-	+ 2	+ 248	-	+ 23	+ 143
Capital Account	- 148	- 59	- 53	+ 26	+ 312	+ 137	- 117
Mutual Aid	-	-	-	-	-	-	- 9
Balancing Item(1)	(1)	(1)	(1)	- 4	+ 2	+ 8	- 7
				+ 270	+ 314	+ 168	+ 10

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically. In the statements of transactions with Empire Countries and with Non-Empire Countries it reflects multilateral settlements in the period before exchange control.

(2) This represents gold and United States dollars received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1937 - 1943.

TABLE VI

CURRENT TRANSACTIONS BETWEEN CANADA AND THE UNITED STATES
(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943
A. CREDITS - WITH THE UNITED STATES							
Merchandise exports-after adjustment	391	268	344	424	566	911	1,224
Net exports of non-monetary gold	145	161	184	203	204	184	142
Tourist and travel expenditures	149	134	137	98	107	79	87
Interest and dividends	31	25	27	29	39	43	34
Freight and shipping	45	39	46	49	64	92	137
All other current credits	42	36	42	31	65	152	274
Total Current Credits	803	663	780	834	1,045	1,461	1,898
B. DEBITS - WITH THE UNITED STATES							
Merchandise imports-after adjustment	463	400	472	702	910	1,116	1,311
Tourist and travel expenditures	65	66	67	40	18	24	34
Interest and dividends	211	218	220	233	214	215	205
Freight and shipping	68	55	61	78	131	179	247
All other current debits	73	73	76	73	90	107	120
Total Current Debits	880	812	896	1,126	1,363	1,641	1,917
C. NET BALANCES - WITH THE UNITED STATES							
Merchandise trade-after adjustment	- 72	- 132	- 128	- 278	- 344	- 205	- 87
Net exports of non-monetary gold	+ 145	+ 161	+ 184	+ 203	+ 204	+ 184	+ 142
Tourist and travel expenditures	+ 84	+ 68	+ 70	+ 58	+ 89	+ 55	+ 53
Interest and dividends	- 180	- 193	- 193	- 204	- 175	- 172	- 171
Freight and shipping	- 23	- 16	- 15	- 29	- 67	- 87	- 110
All other current transactions	- 31	- 37	- 34	- 42	- 25	+ 45	+ 154
Total Current Account	- 77	- 149	- 116	- 292	- 318	- 180	- 19

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1937 - 1943.

TABLE VII

CURRENT TRANSACTIONS BETWEEN CANADA AND OTHER FOREIGN COUNTRIES
(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943
A. CREDITS - WITH OTHER FOREIGN COUNTRIES							
Merchandise exports-after adjustment	157	134	126	79	68	63	63
Tourist and travel expenditures	5	5	3	(1)	1	(1)	(1)
Interest and dividends	38	36	25	20	16	17	20
Freight and shipping	22	13	13	13	2	2	3
All other current credits	3	2	8	8	5	7	14
Total Current Credits	225	190	175	120	92	89	100
B. DEBITS - WITH OTHER FOREIGN COUNTRIES							
Merchandise imports-after adjustment	78	65	64	68	75	64	68
Tourist and travel expenditures	4	3	1	(1)	(1)	(1)	(1)
Interest and dividends	4	6	6	4	4	4	4
Freight and shipping	22	16	19	18	(2)	(2)	(2)
All other current debits	19	22	19	8	9	9	19
Total Current Debits	127	112	109	98	88	77	91
C. NET BALANCES - WITH OTHER FOREIGN COUNTRIES							
Merchandise trade-after adjustment	+ 79	+ 69	+ 62	+ 11	- 7	- 1	- 5
Tourist and travel expenditures	+ 1	+ 2	+ 2	-	+ 1	-	-
Interest and dividends	+ 34	+ 30	+ 19	+ 16	+ 12	+ 13	+ 16
Freight and shipping	-	- 3	- 6	- 5	+ 2	+ 2	+ 3
All other current transactions	- 16	- 20	- 11	-	- 4	- 2	- 5
Total Current Account	+ 98	+ 78	+ 66	+ 22	+ 4	+ 12	+ 9

(1) Less than $500,000
(2) Included in amount shown for United States

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

TABLE VIII

Revised Statement, 1937
(Millions of Canadian $)

A. Canada and all Countries	Credits	Debits	Net
Current Account			
Merchandise trade-after adjustment	1,041	776	+ 265
Net exports of non-monetary gold	145	-	+ 145
Tourist and travel expenditures	166	87	+ 79
Interest and dividends	76	302	- 226
Freight and shipping	112	137	- 25
All other current transactions	53	111	- 58
Totals - Current Account	1,593	1,413	+ 180
Capital Movements	622	794	- 172
Balancing Item (1)	-	8	- 8
	2,215	2,215	
B. Canada and Empire Countries			
Current Account			
Merchandise trade-after adjustment	493	235	+ 258
Tourist and travel expenditures	12	18	- 6
Interest and dividends	7	87	- 80
Freight and shipping	45	47	- 2
All other current transactions	8	19	- 11
Totals - Current Account - United Kingdom	444	309	+ 135
Other Empire Countries	121	97	+ 24
All Empire Countries	565	406	+ 159
Capital movements	118	142	- 24
Balancing Item (1)	(1)	(1)	
C. Canada and Non-Empire Countries			
Current Account			
Merchandise trade-after adjustment	548	541	+ 7
Net exports of non-monetary gold	145	-	+ 145
Tourist and travel expenditures	154	69	+ 85
Interest and dividends	69	215	- 146
Freight and shipping	67	90	- 23
All other current transactions	45	92	- 47
Totals - Current Account - United States	803	880	- 77
Other Foreign Countries	225	127	+ 98
All Non-Empire Countries	1,028	1,007	+ 21
Capital Movements	504	652	- 148
Balancing Item (1)	(1)	(1)	

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically. In the statements of transactions with Empire countries and with Non-Empire countries it reflects multilateral settlements in the period before exchange control.

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

TABLE IX

Revised Statement, 1938
(Millions of Canadian $)

	Credits	Debits	Net
A. Canada and All Countries			
Current Account			
Merchandise trade-after adjustment	844	649	+ 195
Net exports of non-monetary gold	161	-	+ 161
Tourist and travel expenditures	149	86	+ 63
Interest and dividends	66	307	- 241
Freight and shipping	95	105	- 10
All other current transactions	46	114	- 68
Totals - Current Account	1,361	1,261	+ 100
Capital Movements	458	570	- 112
Balancing Item (1)	12	-	+ 12
	1,831	1,831	
B. Canada and Empire Countries			
Current Account			
Merchandise trade-after adjustment	442	184	+ 258
Tourist and travel expenditures	10	17	- 7
Interest and dividends	5	83	- 78
Freight and shipping	43	34	+ 9
All other current transactions	8	19	- 11
Totals - Current Account - United Kingdom	389	262	+ 127
Other Empire Countries	119	75	+ 44
All Empire Countries	508	337	+ 171
Capital Movements	102	155	- 53
Balancing Item(1)	(1)	(1)	
C. Canada and Non-Empire Countries			
Current Account			
Merchandise trade-after adjustment	402	465	- 63
Net exports of non-monetary gold	161	-	+ 161
Tourist and travel expenditures	139	69	+ 70
Interest and dividends	61	224	- 163
Freight and shipping	52	71	- 19
All other current transactions	38	95	- 57
Totals - Current Account - United States	663	812	- 149
Other Foreign Countries	190	112	+ 78
All Non-Empire Countries	853	924	- 71
Capital Movements	356	415	- 59
Balancing Item(1)	(1)	(1)	

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically. In the statements of transactions with Empire countries and with Non-Empire countries it reflects multilateral settlements in the period before exchange control.

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

TABLE X

Revised Statement, 1939
(Millions of Canadian $)

	Credits	Debits	Net
A. Canada and All Countries			
Current Account			
Merchandise trade-after adjustment	906	713	+ 193
Net exports of non-monetary gold	184	-	+ 184
Tourist and travel expenditures	149	81	+ 68
Interest and dividends	57	306	- 249
Freight and shipping	102	119	- 17
All other current transactions	59	112	- 53
Totals - Current Account	1,457	1,331	+ 126
Special Gold Transactions (2)	2	2	-
Capital Movements	558	694	- 136
Balancing Item (1)	10	-	+ 10
	2,027	2,027	
B. Canada and Empire Countries			
Current Account			
Merchandise trade-after adjustment	436	177	+ 259
Tourist and travel expenditures	9	13	- 4
Interest and dividends	5	80	- 75
Freight and shipping	43	39	+ 4
All other current transactions	9	17	- 8
Totals - Current Account - United Kingdom	384	247	+ 137
Other Empire Countries	118	79	+ 39
All Empire Countries	502	326	+ 176
Special Gold Transactions	-	2	- 2
Capital Movements	97	180	- 83
Balancing Item (1)	(1)	(1)	
C. Canada and Non-Empire Countries			
Current Account			
Merchandise trade-after adjustment	470	536	- 66
Net exports of non-monetary gold	184	-	+ 184
Tourist and travel expenditures	140	68	+ 72
Interest and dividends	52	226	- 174
Freight and shipping	59	80	- 21
All other current transactions	50	95	- 45
Totals - Current Account - United States	780	896	- 116
Other Foreign Countries	175	109	+ 66
All Non-Empire Countries	955	1,005	- 50
Special Gold Transactions (2)	2	-	+ 2
Capital Movements	461	514	- 53
Balancing Item (1)	(1)	(1)	

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically. In the statements of transactions with Empire countries and with Non-Empire countries it reflects multilateral settlements in the period before exchange control.

(2) This represents gold received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

TABLE XI

Revised Statement, 1940
(Millions of Canadian $)

	Credits	Debits	Net
A. Canada and All Countries			
Current Account			
Merchandise trade-after adjustment	1,202	1,006	+ 196
Net exports of non-monetary gold	203	-	+ 203
Tourist and travel expenditures	104	43	+ 61
Interest and dividends	52	313	- 261
Freight and shipping	138	132	+ 6
All other current transactions	77	133	- 56
Totals - Current Account	1,776	1,627	+ 149
Special Gold Transactions (2)	248	248	-
Capital Movements	283	471	- 188
Balancing Item (1)	39	-	+ 39
	2,346	2,346	
B. Canada and Empire Countries			
Current Account			
Merchandise trade-after adjustment	699	236	+ 463
Tourist and travel expenditures	6	3	+ 3
Interest and dividends	3	76	- 73
Freight and shipping	76	36	+ 40
All other current transactions	38	52	- 14
Totals - Current Account - United Kingdom	636	293	+ 343
Other Empire Countries	186	110	+ 76
All Empire Countries	822	403	+ 419
Special Gold Transactions (2)		248	- 248
Capital Movements	116	330	- 214
Balancing Item (1)	43	-	+ 43
C. Canada and Non-Empire Countries			
Current Account			
Merchandise trade-after adjustment	503	770	- 267
Net exports of non-monetary gold	203	-	+ 203
Tourist and travel expenditures	98	40	+ 58
Interest and dividends	49	237	- 188
Freight and shipping	62	96	- 34
All other current transactions	39	81	- 42
Totals - Current Account - United States	834	1,126	- 292
Other Foreign Countries	120	98	+ 22
All Non-Empire Countries	954	1,224	- 270
Special Gold Transactions (2)	248	-	+ 248
Capital Movements	167	141	+ 26
Balancing Item (1)	-	4	- 4
	1,369	1,369	

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically.

(2) This represents gold received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

TABLE XII

Revised Statement, 1941
(Millions of Canadian $)

	Credits	Debits	Net
A. Canada and All Countries			
Current Account			
Merchandise trade-after adjustment	1,732	1,264	+ 468
Net exports of non-monetary gold	204	-	+ 204
Tourist and travel expenditures	111	21	+ 90
Interest and dividends	60	286	- 226
Freight and shipping	185	167	+ 18
All other current transactions	166	229	- 63
Totals - Current Account	2,458	1,967	+ 491
Capital Movements	566	1,063	- 497
Balancing Item (1)	6	-	+ 6
	3,030	3,030	
B. Canada and Empire Countries			
Current Account			
Merchandise trade-after adjustment	1,098	279	+ 819
Tourist and travel expenditures	3	3	-
Interest and dividends	5	68	- 63
Freight and shipping	119	36	+ 83
All other current transactions	96	130	- 34
Totals - Current Account - United Kingdom	1,093	359	+ 734
Other Empire Countries	228	157	+ 71
All Empire Countries	1,321	516	+ 805
Capital Movements	181	990	- 809
Balancing Item (1)	4	-	+ 4
	1,506	1,506	
C. Canada and Non-Empire Countries			
Current Account			
Merchandise trade-after adjustment	634	985	- 351
Net exports of non-monetary gold	204	-	+ 204
Tourist and travel expenditures	108	18	+ 90
Interest and dividends	55	218	- 163
Freight and shipping	66	131	- 65
All other current transactions	70	99	- 29
Totals - Current Account - United States	1,045	1,363	- 318
Other Foreign Countries	92	88	+ 4
All Non-Empire Countries	1,137	1,451	- 314
Capital Movements	385	73	+ 312
Balancing Item (1)	2	-	+ 2
	1,524	1,524	

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically.

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

TABLE XIII

Revised Statement, 1942
(Millions of Canadian $)

	Credits	Debits	Net
A. Canada and All Countries			
Current Account			
Merchandise trade-after adjustment	2,515	1,406	+1,109
Net exports of non-monetary gold	184	-	+ 184
Tourist and travel expenditures	81	26	+ 55
Interest and dividends	67	270	- 203
Freight and shipping	221	228	- 7
All other current transactions	308	345	- 37
Totals - Current Account	3,376	2,275	+1,101
Special Gold Transactions (2)	23	23	-
Capital Movements	1,235	1,343	- 108
Billion Dollar Contribution	-	1,000	-1,000
Balancing Item (1)	7	-	+ 7
	4,641	4,641	
B. Canada and Empire Countries			
Current Account			
Merchandise trade-after adjustment	1,541	226	+1,315
Tourist and travel expenditures	2	2	-
Interest and dividends	7	51	- 44
Freight and shipping	127	49	+ 78
All other current transactions	149	229	- 80
Totals - Current Account - United Kingdom	1,657	434	+1,223
Other Empire Countries	169	123	+ 46
All Empire Countries	1,826	557	+1,269
Special Gold Transactions (2)	-	23	- 23
Capital Movements	884	1,129	- 245
Billion Dollar Contribution	-	1,000	-1,000
Balancing Item (1)	-	1	- 1
	2,710	2,710	
C. Canada and Non-Empire Countries			
Current Account			
Merchandise trade-after adjustment	974	1,180	- 206
Net exports of non-monetary gold	184	-	+ 184
Tourist and travel expenditures	79	24	+ 55
Interest and dividends	60	219	- 159
Freight and shipping	94	179	- 85
All other current transactions	159	116	+ 43
Totals - Current Account - United States	1,461	1,641	- 180
Other Foreign Countries	89	77	+ 12
All Non-Empire Countries	1,550	1,718	- 168
Special Gold Transactions (2)	23	-	+ 23
Capital Movements	351	214	+ 137
Balancing Item (1)	8	-	+ 8
	1,932	1,932	

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically.

(2) This represents gold received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

TABLE XIV

Preliminary Statement, 1943

(Millions of Canadian $)

	Credits	Debits	Net
A. Canada and All Countries			
Current Account			
Merchandise trade-after adjustment	3,050	1,579	+1,471
Net exports of non-monetary gold	142	-	+ 142
Tourist and travel expenditures	88	36	+ 52
Interest and dividends	59	261	- 202
Freight and shipping	288	294	- 6
All other current transactions	437	688	- 251
Totals - Current Account	4,064	2,858	+1,206
Special United States dollar transactions (2)	143	143	-
Capital Movements	677	1,360	- 683
Mutual Aid	-	511	- 511
Balancing Item (1)	-	12	- 12
	4,884	4,884	
B. Canada and Empire Countries			
Current Account			
Merchandise trade-after adjustment	1,763	200	+1,563
Tourist and travel expenditures	1	2	- 1
Interest and dividends	5	52	- 47
Freight and shipping	148	47	+ 101
War Services	128	499	- 371
Other current transactions	21	50	- 29
Totals - Current Account - United Kingdom	1,889	740	+1,149
Other Empire Countries	177	110	+ 67
All Empire Countries	2,066	850	+1,216
Special United States dollar transactions (2)	-	143	- 143
Capital Movements	20	586	- 566
Mutual Aid	-	502	- 502
Balancing Item (1)	-	5	- 5
	2,086	2,086	
C. Canada and Non-Empire Countries			
Current Account			
Merchandise trade-after adjustment	1,287	1,379	- 92
Net exports of non-monetary gold	142	-	+ 142
Tourist and travel expenditures	87	34	+ 53
Interest and dividends	54	209	- 155
Freight and shipping	140	247	- 107
All other current transactions	288	139	+ 149
Totals - Current Account - United States	1,898	1,917	- 19
Other Foreign Countries	100	91	+ 9
All Non-Empire Countries	1,998	2,008	- 10
Special United States dollar transactions (2)	143	-	+ 143
Capital Movements	657	774	- 117
Mutual Aid	-	9	- 9
Balancing Item (1)	-	7	- 7
	2,798	2,798	

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically.

(2) This represents United States dollars received from the United Kingdom in part settlement of her deficiency with Canada.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

TABLE XV

MERCHANDISE TRADE BETWEEN CANADA AND OTHER COUNTRIES, 1937 - 1943

(exclusive of gold and adjusted for balance of payments purposes)

(Millions of Canadian dollars)

Credits from Exports	All Countries	Total	United Kingdom	Other Countries	Total	United States	Other Countries
1937	1,041	493	385	108	548	391	157
1938	844	442	337	105	402	268	134
1939	906	436	332	104	470	344	126
1940	1,202	699	542	157	503	424	79
1941	1,732	1,098	914	184	634	566	68
1942	2,515	1,541	1,424	117	974	911	63
1943	3,050	1,763	1,636	127	1,287	1,224	63
Debits for Imports							
1937	776	235	148	87	541	463	78
1938	649	184	119	65	465	400	65
1939	713	177	106	71	536	472	64
1940	1,006	236	133	103	770	702	68
1941	1,264	279	137	142	985	910	75
1942	1,406	226	116	110	1,180	1,116	64
1943	1,579	200	100	100	1,379	1,311	68
Net Credits (+) or Debits (-)							
1937	+ 265	+ 258	+ 237	+21	+ 7	- 72	+79
1938	+ 195	+ 258	+ 218	+40	- 63	-132	+69
1939	+ 193	+ 259	+ 226	+33	- 66	-128	+62
1940	+ 196	+ 463	+ 409	+54	-267	-278	+11
1941	+ 468	+ 819	+ 777	+42	-351	-344	- 7
1942	+1,109	+1,315	+1,308	+ 7	-206	-205	- 1
1943	+1,471	+1,563	+1,536	+27	- 92	- 87	- 5

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

TABLE XVI

REVISED ESTIMATES OF TOURIST EXPENDITURES BETWEEN CANADA AND OTHER COUNTRIES, 1937 - 1943

(Millions of Canadian dollars)

		Empire			Non-Empire		
	All Countries	Total	United Kingdom	Other (1) Countries	Total	United States	Other Countries
Credits- Expenditures of Foreign Tourists in Canada							
1937	166	12	11	1	154	149	5
1938	149	10	8	2	139	134	5
1939	149	9	7	2	140	137	3
1940	104	6	5	1	98	98	(2)
1941	111	3	2	1	108	107	1
1942	81	2	2	(2)	79	79	(2)
1943	88	1	1	(2)	87	87	(2)
Debits-Expenditures of Canadian Tourists Abroad							
1937	87	18	16	2	69	65	4
1938	86	17	15	2	69	66	3
1939	81	13	11	2	68	67	1
1940	43	3	2	1	40	40	(2)
1941	21	3	2	1	18	18	(2)
1942	26	2	2	(2)	24	24	(2)
1943	36	2	2	(2)	34	34	(2)
Net Credits (+) or Net Debits (-)							
1937	+79	-6	-5	-1	+85	+84	+1
1938	+63	-7	-7	-	+70	+68	+2
1939	+68	-4	-4	-	+72	+70	+2
1940	+61	+3	+3	-	+58	+58	(2)
1941	+90	-	-	-	+90	+89	+1
1942	+55	-	-	-	+55	+55	(2)
1943	+52	-1	-1	-	+53	+53	(2)

(1) Excluding Newfoundland.

(2) Less than $500,000.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

TABLE XVII

ESTIMATED DISTRIBUTION OF INTEREST AND DIVIDEND PAYMENTS AND RECEIPTS BETWEEN CANADA AND OTHER COUNTRIES, 1937-1943

(Millions of Canadian dollars)

		Empire			Non-Empire		
	All Countries	Total	United Kingdom	Other Countries	Total	United States	Other Countries
Credits-Receipts of Interest & Dividends from Investments abroad							
1937	76	7	2	5	69	31	38
1938	66	5	2	3	61	25	36
1939	57	5	2	3	52	27	25
1940	52	3	2	1	49	29	20
1941	60	5	4	1	55	39	16
1942	67	7	5	2	60	43	17
1943	59	5	4	1	54	34	20
Debits-Payments of Interest & Dividends to Non-Residents							
1937	302	87	85	2	215	211	4
1938	307	83	81	2	224	218	6
1939	306	80	78	2	226	220	6
1940	313	76	74	2	237	233	4
1941	286	68	66	2	218	214	4
1942	270	51	50	1	219	215	4
1943	261	52	51	1	209	205	4
Net Credits (+) or Debits (-)							
1937	-226	-80	-83	+3	-146	-180	+34
1938	-241	-78	-79	+1	-163	-193	+30
1939	-249	-75	-76	+1	-174	-193	+19
1940	-261	-73	-72	-1	-188	-204	+16
1941	-226	-63	-62	-1	-163	-175	+12
1942	-203	-44	-45	+1	-159	-172	+13
1943	-202	-47	-47	-	-155	-171	+16

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Minister of Trade and Commerce

CANADA

DEPARTMENT OF TRADE AND COMMERCE

DOMINION BUREAU OF STATISTICS

INTERNATIONAL PAYMENTS BRANCH

THE CANADIAN BALANCE

OF

INTERNATIONAL PAYMENTS, 1926-1944

Revised Statements, 1926-1943,

and

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CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

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Dominion Statistician: Herbert Marshall, B.A., F.S.S.
Chief, International Payments Branch: C. D. Blyth, B. A.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Canada's external economic relations are revealed in outline by statements of the Canadian balance of international payments. The statements present, in a statistical form, a summary of the commercial and financial transactions occurring between Canada and other countries. They furnish, therefore, an overall view of the external relations of the Canadian economy just as national income studies provide an outline of its internal structure. In an economy such as Canada's where external sources of income and demand furnish an important dynamic element to activity within the country, the balance of payments focuses attention upon the impact of external demand upon the Canadian economy, the expenditure of income outside of Canada, and the resulting financial and exchange aspects. During the war transactions on external account have constituted an even larger proportion of the national income than formerly. In the latter years of the war, gross credits on current account represented almost one-half of the national income compared with approximately one-third in the period before the war.

GENERAL STRUCTURE OF THE BALANCE OF PAYMENTS

The Canadian balance of payments before the war possessed quite definite outlines and characteristics. For some years net receipts from the excess of merchandise exports over import trade with all countries, newly mined gold, and travel expenditures exceeded the net external disbursements on interest and dividends account and for freight and other services. The growing current account credit balance in all countries in years immediately preceding the war was dependent, however, to a considerable extent upon expanding gold production. The more significant annual variations in the gross volume of current international transactions and in the current account balances arise usually from fluctuations in merchandise trade. Demand for Canadian exports varies widely from year to year, and Canadian demand for imports is closely related to fluctuations in the national income in Canada. The large element of interest charges in the total payments on account of interest and dividends makes for some rigidity in payments on income account, and possible fluctuations in the net balance from the tourist trade are moderated considerably by the substantial volume of Canadian travel expenditures outside of Canada, which usually fluctuate in the same direction as travel expenditures in Canada.

The geographical distribution of transactions has displayed very pronounced characteristics and has shown a concentration of dealings with the United Kingdom and the United States with credit balances on current account characterizing the balance of payments between Canada and the United Kingdom for a number of years preceding the war, and chronic debit balances being customary in the account with the United States. The main sources of the credit balance with the United Kingdom was the large income which Canada has had from exports of merchandise to the United Kingdom. In the years immediately before the war this was customarily much greater than

the total of current payments made by Canada to the United Kingdom for merchandise imports, shipping and other commercial and financing services and payments of interest and dividends on Canadian investments owned in the United Kingdom. This sterling income was, however, freely convertible before the war into United States dollars or other currencies for which Canadian demand exceeded the Canadian supply. Because of this existence of free exchange markets, there was no problem of settling the credit balance with the United Kingdom such as has developed during the war. The Canadian need for external income to meet payments in the United States and certain other countries where Canada usually has debit balances arises chiefly from the excess of purchases of merchandise in the United States over Canadian exports to that country combined with the large Canadian payments of interest and dividends to American investors, and the payments for transportation, travel and other services. While there is, in good years, a substantial income from Canadian exports to the United States and from United States tourist expenditures in Canada, this along with sales of newly mined gold was not sufficient in any year before the war to meet the large payments for goods and services purchased in the United States.

Canada's special interest in a system of multilateral settlements is apparent from the structure of the Canadian balance of payments. For example, the existence of free exchange markets before the war provided a channel of international settlement, particularly between the nations of the British Commonwealth and the United States. It was, therefore, possible for there to be a considerable amount of disequilibrium or "unbalance" in Canada's current accounts with the United Kingdom and the United States without any special problems of settling these balances arising. Triangular settlements such as those arising from the unbalanced state of Canada's accounts with the United Kingdom and the United States were an integral part of the network of international commerce which had grown up over a long period. The system of multilateral settlements made it possible to settle balances like those arising from Canada's dealings with its principal trading partners.

WARTIME DEVELOPMENTS

The war, however, interrupted the operation of the system of multilateral settlements by creating conditions under which sterling was no longer freely convertible into United States dollars. In addition, the current accounts of the belligerent nations became distorted by wartime demands which have produced greatly augmented current balances for which new methods of settlement have had to be devised. In the case of Canada, the new conditions produced problems with respect to the balances of payments with both the sterling area and the non-sterling area, and the situation made exchange control necessary.

During the wartime period, the external demand for Canadian production has been a dominant influence upon the balance of payments. British and other allied requirements for munitions, food, raw materials and other goods and also for war services have been among the principal contributors to the great wartime development of productive capacity and of capital equipment in Canada. The rapid expansion of investment in new productive facilities created heavy demands for capital goods procurable only in the United States. The new kinds of industrial production also led to new demands for fuel, industrial materials and components which also had to be purchased in the United States. As a result of the new capacity and demands the level of industrial production on overseas account rose to unprecedented heights.

In their external aspects, the financial problems accompanying this great achievement in production were twofold. There has been the problem associated with the British scarcity of Canadian dollars to pay for the munitions, food and other

commodities which were so urgently needed for the prosecution of the war and there has been that arising from the Canadian shortage of United States dollars to pay for the capital equipment, materials and components required for the war production. These two tendencies contributed to the development of a greatly increased credit balance in the current account with the sterling area and an increased debit balance in the current account with the United States dollar area. Accompanying this great increase in disequilibrium was the interruption in the system of multilateral settlements already referred to. As a result of these developments, it was necessary to devise methods of overcoming these financial obstacles in order that they should not interfere with the Dominion's contribution to the war.

With the sterling area, the problem has been one of finding means of financing the growing British shortage of Canadian dollars resulting from the extraordinary wartime needs of the United Kingdom for Canadian munitions, food and raw materials. These needs, of course, increased to unprecedented proportions as the United Kingdom was a principal base of operations against the axis. In the earlier years of the war, this shortage was principally met by the Canadian government repatriating Canadian securities owned in the United Kingdom and by the accumulation of sterling balances by the Foreign Exchange Control Board. Some settlements were also effected by purchases of gold from the United Kingdom which, in turn, were sold in the United States to settle Canadian deficits there. In 1942, however, besides some additional repatriations, a new method of meeting the growing needs of the United Kingdom for Canadian dollars was introduced when a contribution of one billion dollars was made to the Government of the United Kingdom for expenditure on war supplies in Canada. In the same year the major part of the accumulation of sterling balances by Canada was converted into a loan of $700 million to the United Kingdom. In 1943, a further development in the methods of financing the wartime needs of the Allied Nations was the appropriation by the Canadian Parliament of one billion dollars for Mutual Aid, for the production and transfer of Canadian war supplies to the United Nations. In 1944 there was a further appropriation of $800 million for Mutual Aid. Capital debits arising from the repurchase by Canada of the British equity in the fixed capital of war plants, amounting to $205 million and the repayment of $190 million by Canada of British working capital advances made to Canadian munitions producers earlier in the war, provided a considerable amount of the additional funds required to finance the British current account deficiency in 1943. There have also been special receipts of United States dollars from the United Kingdom. Increasing current payments by the Canadian government to meet the overseas expenditures of the Canadian forces have also provided a very substantial source of Canadian dollars for the United Kingdom, having grown greatly in the latter years of the war as the number of Canadian forces overseas increased and military, naval and air operations were expanded. In short, the United Kingdom has been able to obtain such a large volume of commodities from Canada for the prosecution of the war only because of special receipts of Canadian dollars such as have been outlined above. The special sources of dollars which have made this possible are mostly outlays of the Dominion Government arising from the wartime financial organization of the Dominion in which government expenditures represent a large part of the national income.

In the case of the balance of payments with non-Empire countries, the central problem has also been one of scarcity - in this case a Canadian shortage of United States dollars. The customary deficits in Canada's current account with the United States were greatly augmented by the war, principally because of the rapid rise in Canadian imports from the United States. At the same time, net credits from other foreign countries whose currencies are convertible into United States dollars have sharply contracted with the decline in exports to Continental Europe and Asia.

Since during the war period, the deficits incurred with the United States dollar area had to be settled with United States dollars, it became necessary to conserve United States dollars for the more essential purposes of the war, and to develop new sources of United States dollars. Exchange control with the control of capital movements provided the principal means of conserving United States dollars. Government measures also limited expenditures on Canadian pleasure travel and non-essential commodities in non-Empire countries. As a result of the agreements entered into at Hyde Park in April 1941, new sources of United States dollars were produced with the sale of ships and munitions on a large scale to the United States government and further development of the production of raw materials in Canada. Settlements made by the United Kingdom in United States dollars, and in gold sold in the United States, have also been a factor in meeting deficits in the United States. Another factor of increasing importance in alleviating Canada's shortage of United States dollars has been the growing volume of imports of Capital arising, mainly, from the purchase of outstanding Canadian bonds by United States investors.

In the last two years of the war a combination of temporary developments led to a marked change in the current account with the United States. Although current payments by Canada for merchandise and services reached a record level in 1943 and only declined moderately in 1944, there were very striking increases in current receipts from sales of munitions to the United States Government and from sales of grain to the United States which increased to unprecedented levels. Other exports to the United States were also heavier and more diversified than formerly, as unusual demands were created by wartime incomes and temporary shortages. United States purchases of grain reached their peak in 1944, when they considerably exceeded the level of total exports of all commodities from Canada to the United States in 1938.

Another unusual source of substantial income in the latter years of the war originated in United States Government expenditures on defence activities in Canada. The construction of the Alaska highway and air fields, and the Canol project and other activities in Northern Canada were the principal objects of expenditure.

As a result of these various non-recurrent developments the current account deficit with the United States was reduced to negligible size in 1943. In the year 1944, however, the unusual sources of receipts were so heavy there was a substantial surplus from current transactions in the United States before taking account of the large special payments to the United States Treasury in that year. When these payments are included in the current account, however, it is brought close to equilibrium for the year as a whole, there being a relatively small credit balance. These special payments were in connection with the termination of the financial aspects of the Hyde Park agreements.[1] The payments included various war expenditures such as reimbursements to the United States for air fields and telephone lines constructed in Canada.

DEVELOPMENTS IN 1944.

Canadian war production was at its peak in 1944 and this is reflected in the balance of payments in various ways. In the balance of payments between Canada and the sterling area the effects of maximum production were to increase gross expenditures of the sterling area in Canada, including the expenditure of Mutual Aid funds on sterling area account as well as the disbursement of the greatly augmented amount of funds actually received by the sterling area from payments by the Canadian Government of overseas war expenditures.

Food and munitions shipped to the British were at record levels. Exports of lumber and other wood products were also heavier than in the previous year but

1/ See statement of the Minister of Finance, Hansard of April 21, 1944, Page 2289.

there was some recession in shipments of non-ferrous metals and miscellaneous commodities to the United Kingdom, arising mainly from reduced requirements for aluminum. One of the greatest relative increases in the expenditures of the sterling area in Canada was in the value of exports on other sterling area account. This was partly a result of the development of Mutual Aid to Australia with the consequent direct financing of some commodities to that country which formerly had been financed through United Kingdom channels. But exports of civilian commodities to the other sterling area countries were much heavier in 1944 as well, with the result that the requirements of the other sterling area countries added a considerable amount to the direct requirements of the United Kingdom itself.

Sterling area expenditures on war services and freight and other current transactions showed some varying trends during the year. Expenditures for war services were about the same in total in 1944 as in 1943, but their composition was considerably different. Payments to Canada for freight were higher, mainly reflecting the increased movement of commodities from Canada. Increased earnings by the growing fleet of Canadian operated merchant vessels were a factor in this increase. As a result of the trends described above, total current expenditures of the sterling area in Canada increased from $2,066 million in 1943 to $2,307 million in 1944. This is between four and five times the size of Empire purchases of Canadian commodities and services in 1939.

The more normal sources of Canadian dollars which the sterling area has to meet the above liabilities did not vary much in total in 1944. The value of imports from the sterling area into Canada showed little change during the year as a whole. Likewise Canadian payments to the United Kingdom for freight, interest and dividends and other normal current services were only slightly higher in 1944.

The most important change in the sterling area's supply of Canadian dollars, of course, came through the great increase in the payments by the Canadian Government to the United Kingdom for the expenses of the Canadian forces overseas. These increased from $499 million in 1943 to $1,085 million in 1944. The great increase in overseas expenditures was principally the result of liabilities incurred by the Army and Air Force. The campaign in Italy throughout the year and the operations in Western Europe in the last seven months of the year created much heavier liabilities for equipment and stores. There were also payments for costs incurred by the Army in early years. With the Air Force some of the increase arose from the high degree of operations throughout the year but a considerable portion originated in the assumption of the costs of a larger number of Canadian squadrons overseas than in earlier years and in payments for advanced air training overseas.

As a result of transactions described above the sterling area had net current account deficits of $879 million in 1944 compared with $1,216 million in 1943. The principal reason for the reduction was, of course, the effect of the much heavier Canadian overseas expenditures during the year. Mutual Aid provided a means of financing $834 million of the deficit in 1944, whereas in 1943 total expenditures by the Canadian Mutual Aid Board for Empire countries amounted to $503 million. Mutual Aid to the United Kingdom in 1944 accounted for about $775 million of the total. Most of the remainder was for Australia with smaller amounts for the British West Indies, India and New Zealand. These goods provided under Mutual Aid have been included with other exports in the balance of payments statements and consequently are reflected in the current account balances shown. Their inclusion among the credits is offset by debits of similar size which have been entered in the special "Mutual Aid" item representing the expenditures by the Canadian Mutual Aid Board. This new form of aid to Britain and other Allied nations is in physical terms, whereas the Billion Dollar Contribution of 1942 was aid expressed in financial

terms although in effect a contribution of goods and services. Under Mutual Aid the actual war supplies and services are provided the Allied nations requesting the aid directly by Canada. Among other methods of financing the deficit was the special receipt of U.S. dollars from the United Kingdom, equivalent to $55 million Canadian. There were also debits on balance on capital account and other special official payments which were mainly for the purpose of adjusting inter-governmental transactions, and various currency settlements adjusting special transactions.

In the balance of payments with the United States a combination of unusual developments created the unique conditions in which there was a credit balance on current account in 1944. Various abnormal wartime sources of dollars provided a surplus over and above Canada's current expenditures in the United States during the year. Receipts from the sale of munitions to the United States Government under the Hyde Park Agreements, and from the sale in the United States of over $300 million of grain to meet wartime feed and other shortages, heavy exports of a great variety of other commodities for which scarcities and wartime incomes created swollen demands, and continued expenditures by the United States Government on defence activities in Northern Canada all contributed to the extraordinary volume of current receipts. The United States Government expenditures were still substantial in the first half of 1944 although much less than in the peak year 1943. There was some improvement in the level of American tourist and travel expenditures in Canada accompanying the easing of American restrictions on pleasure travel by car but at the same time there was a further contraction in the net exports of non-monetary gold resulting from continued reductions in production. The consequent increase in total current receipts was considerably greater than the level of current expenditures in the United States. The latter were slightly less than in 1943 if the special payments to the United States Treasury in connection with the termination of the financial aspects of the Hyde Park Agreements already referred to above are excluded[1]. The principal reason for the moderate contraction in the level of imports was the greater use of Canadian sources of supply of materials and the virtual completion of the program of capital expansion in Canadian industry which entailed such large purchases of Canadian equipment in the United States in the early years. To some extent the reduced imports for war purposes were offset by the greater purchases of American commodities for civilian purposes, because of a slight easing in the supply of some civilian commodities and a greater reliance upon American sources of supply for other commodities. There was an appreciable increase in tourist and travel expenditures in the United States by Canadians accompanying some relaxation in travel restrictions in the month of May, 1944. Although payments of interest were slightly higher because of the increased American holdings of Canadian bonds, there was a decline in dividend payments.

Inflows of capital continued to be extraordinarily heavy in 1944 with transactions in securities still representing the major part of the movements. While the volume of security transactions was less in 1944 than in 1943, the net inflow from the United States from security transactions was not widely different in the two years. Gross sales of Canadian securities to the United States were less but so also was the total of redemptions, there having been in 1943 a substantial total of Dominion issues called for redemption. While sales of Canadian bond issues payable in foreign currency were less in 1944 than in 1943, there was an increase in purchases of Canadian domestic bonds. In 1944 there was more capital transferred to Canada for the establishment and developments of direct investment by American businesses than was the case in the earlier years of the war.

Capital payments continued to be for the most part for the redemption of securities or other debts, exports of capital being subject to the restrictions imposed by exchange control. Although certain other exports of capital were per-

1/ See statement of the Minister of Finance, Hansard of April 21, 1944, Page 2289.

mitted in 1944, mainly in connection with the direct investments abroad of Canadian businesses, the total of such transfers was small. There are also debit entries in the capital account reflecting the increase in official reserves of gold and United States dollars as well as various changes in the working capital position of private businesses.

There were special receipts of United States dollars from the United Kingdom amounting to $55 million providing a means of settling part of the British deficit in Canada. There was also a substantial total of receipts from exchange recoveries and adjustments arising principally out of transactions with the sterling area.

It should be noted that a substantial part of the credit balance on current account with non-Empire countries in 1944 is represented by war supplies and services provided as Mutual Aid by the Canadian Government to China, France and the USSR. The total of Mutual Aid to this group of countries amounted to $102 million. The gift of wheat to Greece by the Canadian Government is also part of the credit balance being offset by a debit entry in the capital account.

HISTORICAL REVIEW, 1926 - 1939

(See Tables I - XIII)

The normal commercial and financial relations which have developed between Canada and the rest of the world have been predominantly with the United Kingdom and the United States. The major part of Canada's external merchandise trade has customarily been with these two countries. A huge exchange of commodities has grown up over the years as a result of the close commercial relations between Canada and these countries, to the advantage of each country. As the predominant part of the movement of external capital in the past was from these two countries to Canada, the largest part of the interest and dividends paid by Canada to other countries on external capital invested in the Dominion has also been to the United Kingdom and the United States. Similarly a considerable part of Canadian income from capital invested abroad has originated from investments in the United States. There have also been customarily important exchanges of services between Canada and the United Kingdom and the United States. The total exchange of freight and shipping services between these countries is large and closely related to the large movements of merchandise. Travel is also the source of large international payments, particularly between Canada and the United States, the volume of traffic across the border being very great. Similarly there is a great variety of exchanges of commercial, professional, and financial services of all kinds, and personal and benevolent remittances between these countries.

GENERAL INFLUENCES

During the period from 1926 to the outbreak of the war the most important factors in the background affecting the Canadian balance of payments have been the changing conditions of prosperity and depression in the industrial nations of the world. Being very dependent upon external sources of income, the Canadian economy has been more subject to the effects of economic conditions abroad than many other nations. Changes in incomes in the United Kingdom and the United States, particularly have affected the demands for Canadian exports and services, and changing Canadian incomes in turn affect Canadian purchases of goods and services abroad. The international movement of capital has also fluctuated with general economic conditions, as well as special financial circumstances, with resulting effects upon the balance of payments. Also important have been Canadian industrial developments, resulting in changes in international supply and demand for commodities, such as the expansion in production of gold and non-ferrous metals in Canada in the 1930's for export, and developments in industries supplying the Canadian home markets with commodities formerly imported. Commercial agreements have also affected the flow of trade. But the trend in general economic conditions in countries like the United Kingdom and the United States have had the most important effects on the Canadian balance of payments and on Canadian economic activity. These changes have been transmitted to Canada with varying intensity. Consequently, the relative levels of income and production in Canada, the United Kingdom and the United States are among the main determinants of changes in the balance of payments.

The export industries occupy a key position in the Canadian economy and variations in demand for exports have far-reaching effects upon the national income with consequent indirect effects upon Canadian imports. A large part of Canadian exports is made up of a relatively small number of commodities and the dependence upon export markets for many of these commodities is very great. Wheat and other food, newsprint, pulp, lumber, nickel, aluminum, copper, lead, zinc and gold are examples of commodities in which Canadian production greatly exceeded domestic requirements during the inter-war period. Many regions are dependent upon incomes from the production of commodities like these and are consequently exposed to the fluctuation in external demand for their products. Canadian demand for imports is in turn sub-

sequently affected with the result that there are very wide fluctuations in the balance of merchandise trade, the most important item in the balance of payments.

The Canadian balance of payments is therefore vulnerable to changes in international demand. This vulnerability is accentuated even more by the wide disequilibrium which is normal in Canada's current account with each of the United States and United Kingdom. Whenever conditions weakening sterling in terms of dollars arise these tend to be transmitted to the Canadian dollar by the loss in the value of sterling income necessary for making payments in appreciated United States dollars. This peculiar structural characteristic of the Canadian balance of payments is what makes for the close relationships between the Canadian dollar and sterling and the United States dollar.

An historical review of the balance of payments reveals national development interacting with the impact of conditions abroad. There were great developments during the inter-war years in the sources of Canada's external income. The composition of Canadian exports underwent many changes during this period. The main trend was a growing diversification as new industries and products were established or expanded. Some of this economic growth is obscured by the depression and decline in prices from the high levels of the 1920's. In the 1920's, for example, there were large developments in the newsprint and wood products industries, base metal, mining and smelting and automobile production and other manufacturing for export markets. In the 1930's the base metal industries were further developed for export and gold mining became a major producer of foreign exchange. Income from American travel expenditures in Canada reached high levels in prosperous years with the improvements in highways. But variations in foreign demand for Canadian goods and services influenced the extent to which all of these productive facilities were employed. Consequently the level of Canada's current receipts from the sale of goods and services was influenced by the vagaries of external demand as well as the growing capacity for providing them.

Canadian expenditures abroad were influenced to a large extent by the course of development in Canada during the inter-war years. During the period of heavy investments in the 1920's Canadian import requirements from the United States especially were very heavy. There was an expansion of industrial capacity under way as well as large investments in transportation facilities and public utilities. These developments led to heavy imports of capital goods from the United States which were much greater before the depression than during the period of recovery in the 1930's. The prosperity of the 1920's also led to heavier purchases of United States goods generally. Imports from the United States were particularly swollen by the United States dollar content of consumers durable goods which were greatly in demand in Canada during the prosperous years. The falling off in imports in the 1930's although to a large extent due to a decline in investment in Canada can be partly attributed to the development of Canadian sources of supply for many commodities which had formerly been imported. Imports from the United Kingdom in the 1920's had also been higher than in the 1930's when Canadian sources supplied a larger part of Canadian requirements. The heavy borrowing before the depression led to a large overhead cost in the form of interest payable to United States investors. This became a rigid element in the balance of payments with the United States during the depression and succeeding years. But some of the external capital invested during the period of heavy investment was in the form of direct investments in branches and subsidiaries and consequently the income payments on this portion of the Canadian external indebtedness was more flexible, declining as it did during the depression when corporation incomes were reduced.

The balance of payments during the years of recovery before the war warrants closer analysis as it was during this period that the growing diversifi-

cation in export capacity was more fully developed and employed. A greater number of industries depended upon export markets than in earlier periods. There was a relatively greater dependence upon export markets in the United Kingdom than in earlier years. At the same time Canadian imports from the United Kingdom were less than in the earlier period and there was consequently a very substantial credit balance in Canada's current account with the United Kingdom, averaging about $130 million in the four years from 1936 to 1939. There were also substantial net credits from trade with other Empire countries adding further to Canada's current income in sterling. But Canadian exports to other overseas countries, particularly Continental Europe, were much lower than during the 1920's when European purchases of Canadian wheat were very heavy.

Canada's current deficit with the United States during the same four years before the war was more variable, ranging from virtual equilibrium in 1936 to a deficit of $149 million during the "recession" year of 1938. In the former year Canadian income in the United States was augmented by large American purchases of grain because of the drought while Canadian imports were still well below the levels reached in the later years of recovery. In the latter year Canadian exports to the United States dropped very sharply below 1936 and 1937 with the decline in economic activity in the United States while Canadian imports continued to be relatively substantial as incomes and economic activity were partly sustained in Canada by exports to overseas countries. But throughout this period before the war Canadian imports were much lower than during the 1920's, partly because of the small volume of investment in Canada. Since economic activity in Canada in the 1930's never approached the levels which the productive capacity of the country was capable of reaching Canadian expenditures abroad must be regarded as subnormal during this period. On the other hand the external demand for Canadian products also had a subnormal character. An important source of dollars keeping the current deficit with the United States from expanding further than it otherwise would was the rising level of Canadian gold production.

The wide variability of the current deficit with the United States before the war is illustrative of the vulnerability of Canadian exchange to conditions outside of Canada. While the Canadian balance of payments with all countries during this period produced a substantial balance on current account there was also a very high degree of offsetting disequilibrium with both the United Kingdom and the United States. It was only the existence of the convertibility of sterling and other exchange received from Canada's trade with overseas countries into United States dollars to meet deficits there which made the conditions of multilateralism then prevailing possible.

This led to a much greater disequilibrium in Canada's accounts with both the United Kingdom and the United States as has been already described. The inconvertibility of sterling was an immediate financial consequence of the war and led to the necessity of considering Canada's balance of payments with the sterling area in a distinct compartment from the balance of payments with the United States and other countries with convertible exchange. The exchange and financial problems associated with the Canadian shortage of United States dollars and the British requirements for Canadian dollars were a direct result of the inconvertibility of sterling and the greatly increased disequilibrium in Canada's accounts with these countries arising from exchanges of goods and services swollen by wartime demands.

CAPITAL MOVEMENTS

Most of the investment of external capital in Canada occurred before 1926. The largest part of the British capital had been invested before the First Great War, and there had been a very heavy inflow of capital from the United States

during the war and during the post war years. This latter movement from the United States continued throughout the 1920's, although in 1925 and 1926 there were substantial exports of capital from Canada on balance. The heaviest capital influx from the United States occurred during the years prior to 1924 and during 1929 and 1930.

The net import of capital from all countries approximated $311 million in 1929 and $337 million in 1930, as indicated by the debit balances on current account during these years. In 1929 and 1930 there were very large flotations of new Canadian bond issues in the United States in connection with the capital developments under way in Canada. Inflows for direct investment were also appreciable in these years and in the earlier year a considerable amount of inflow took the form of repatriation of the liquid assets of Canadian banks in New York. Inflows continued during 1931 and 1932 on a reduced scale but partly through reductions in Canadian assets abroad rather than in new borrowing in connection with investments in Canada. Inflows of capital were an important factor in maintaining the strength of the Canadian dollar during this period up until the rapid depreciation of sterling late in 1931. During the later 1930's Canada again became an exporter of capital. Prior to this period most of the exports of capital had occurred in 1925 and 1926 when large amounts of Canadian capital were invested in United States and other foreign securities. While there were other exports of capital for the purchase of securities in succeeding years, these were more than offset by imports of capital from the sale of new Canadian issues of securities abroad and from the expansion of American direct investments in Canada. The exports of capital which developed in the late 1930's were of a different kind from those before the depression. These mainly took the form of redemptions of Canadian bond issues held in the United States and elsewhere, along with some retirements of indebtedness in connection with American direct investments in Canada, some expansion in Canadian direct investments in the United States, and outflows of funds by insurance companies. These various forms of outflows of capital more than offset any inflows arising from the purchase of Canadian outstanding securities by non-resident investors during these years. The outflow of capital became appreciable in 1934 and was highest in 1936 although the level continued to be still substantial in the three years before the war. Canada's balance of indebtedness was consequently reduced during these years before the war.

TRANSACTIONS WITH THE UNITED KINGDOM

(See Tables IV and IX)

The Canadian balance of payments with the United Kingdom has undergone numerous changes during the period between 1926 and the beginning of the war. The structure which was typical in the years immediately preceding the war is generally appreciated. During that period Canada had consistently a large sterling income from exports which substantially exceeded payments for imports, interest and dividends, freight and other services. To a large extent, however, this surplus of sterling income in the years immediately preceding the war is attributable to commercial agreements and the heavy British demands for Canadian commodities arising out of the housing construction throughout the 1930's and from the rearmament demands in the latter years of the decade. British economic activity and incomes were sustained at a high level for a number of years before the war.

It is important to note, however, that in Canada's accounts with the United Kingdom in each year from 1927 to 1932 the situation was exactly the reverse of that prevailing from 1933 to 1939. In each of these former years current payments by Canada to the United Kingdom exceeded current receipts. The debit balances were particularly substantial in 1929 and 1930. A prominent factor in this change in the

structure of the balance of payments with the United Kingdom was the significantly higher level of payments by Canada during the years in question. Total interest and dividends to the United Kingdom were much higher before the depression than in any subsequent year in the 1930's, partly because of railway dividends. At the same time Canadian imports of merchandise were greater throughout the 1920's than in the 1930's. Although some of this larger value was due to the higher prices in the earlier period a considerable amount was the result of Canadian demand for many manufactured commodities which were not produced at that time in Canada. The development of manufacturing in Canada in the ensuing decade was a factor in reducing the general volume of Canadian imports from the United Kingdom.

Canadian export sales to the United Kingdom were at a lower level during the years from 1927 to 1932 than they were in the subsequent 1930's. This is after allowance is made for the large amount of Canadian wheat which was sold to Continental countries but in some cases originally shown as exported to the United Kingdom in these earlier years. Distinct improvements appeared in Canada's exports to the United Kingdom in 1933 and subsequent years and by 1936 exports had arisen to a higher level than in any other year from 1926 on. Increases were particularly notable in bacon and other food products and lumber, wood products and non-ferrous metals. In the four years before the war the value of exports to the United Kingdom remained relatively stable. A wide range of Canadian commodities were exported to Britain. The British market was particularly important in absorbing surplusses of Canadian farm products and raw materials. Wheat and flour, fruit, bacon, dairy products and other food, furs, lumber and other forest products and non-ferrous metals were among the commodities for which there was a sustained British demand before the war.

The credit balance on current account with the United Kingdom expanded from $26 million in 1933 to $137 million in 1939, without including the exports of gold from Canada to the United Kingdom which were substantial in some of these years. This movement of gold was chiefly the result of temporary market situations and its inclusion in total credits in the account with the United Kingdom would considerably expand the credit balance over that arising from commercial transactions. Total net exports of non-monetary gold are included in the current account with the United States in tables in this report.

Capital movements between Canada and the United Kingdom during the period under review have been predominantly from Canada to the United Kingdom. Retirements of Canadian securities originally sold to British investors have been the principal form of this outward movement of capital. In each year during the period under review, with the exception of 1933 and 1934, retirements exceeded new issues of Canadian securities sold in the London market. In addition, in many years there were repurchases of outstanding Canadian securities from British investors. In 1933 and 1934, however, this movement turned in the opposite direction when sales of Canadian outstanding securities greatly exceeded Canadian repurchases. Although the total inflow of capital from the United Kingdom was very heavy in these two years the net movement during the period from 1926 to 1939 was on balance outward and had the effect of reducing the balance of Canadian indebtedness to the United Kingdom.

The combined effects of current and capital account transactions between Canada and the United Kingdom has been that each year from 1933 there was a very large surplus of Canadian receipts from the United Kingdom. While the credit balance on current account was still small in 1933 and 1934 there were the very large credit balances on capital account of approximately $94 million and $99 million respectively. In later years when the credit balance on current account expanded, it was, after 1935, much larger than the debit balances on

capital account. Consequently Canada had a large surplus of sterling receipts generally from 1933 on. Under the conditions of exchange convertibility existing before the war this sterling surplus could be sold for United States dollars to provide the dollar exchange needed to make payments in the United States.

TRANSACTIONS WITH OTHER OVERSEAS COUNTRIES

(See Tables VI, X and XIII)

Canada has had large balances on current account with other overseas countries as a whole consistently throughout the period under review. Income from exports of merchandise has been the predominant source of receipts. Supplementing these receipts is investment income arising mainly from Canadian direct investments in South America. Exports of food and raw materials have constituted a large part of the merchandise trade with other countries. European demand for Canadian grain and other commodities was especially heavy before the depression but the reduction in this demand during the depression and the accompanying period of autarchy was never regained in the period of recovery before the war. A certain amount of this reduction in income from exports to Europe and other foreign countries was offset by larger sales to the Dominions and other British countries. Canadian imports and other payments to this group of other countries did not fall as much proportionately in the pre-war years as was the case with exports to this area; consequently the net current account balance with other countries, which was as high as $338 million in 1928, was reduced to $122 million in 1938. An important factor contributing to the large credit balances in the earlier years arises from the inclusion of wheat exports in the current account with these countries which was originally declared as exported to the United Kingdom but subsequently diverted to other European destinations.

While there are other exchanges of services between Canada and these countries, to a large extent these exchanges are offsetting for the group of countries as a whole, particularly in the case of tourist and travel expenditures and freight and shipping. While the balance on account of these transactions is of significance with some individual countries, the volume of transactions is usually small in relation to merchandise trade. There is, however, a considerable balance of debits arising from all other current transactions. The largest component of these payments is personal remittances to Europe and Asia by persons living in Canada with family ties abroad. The level of personal remittances was higher before the depression and has shown a secular decline during the period as the volume of immigration to Canada in the last decade before the war was much less than in earlier periods.

The continental distribution of trade reveals some fairly definite patterns. Canada has been a net exporter to each continent outside of America in most years. In the case of South America, however, there was a balance of imports in most years before the war. Although imports from the United States have exceeded exports consistently, there has been a balance of exports to other North American countries excluding the United States as a whole throughout the period under review. The current account with Empire countries other than the United Kingdom also shows a credit balance throughout the period under review. Although a minor part of the total in each year the credit balance with these countries became relatively more important in the 1930's with the sharp decline in exports to Europe.

While there have at times been substantial movements of capital between Canada and overseas countries other than the United Kingdom there is little relationship between these movements and Canada's current account with the area as a whole. Most of the capital movements have taken the form of security transactions in international capital markets. During the 1920's Canadians purchased large amounts of new issues of foreign bonds usually floated in the United States. South American issues

made up most of these purchases although there were also some European and British Dominion issues as well. Many of these holdings were later sold abroad. Later in the years immediately before the war there was a substantial movement of European capital to Canada. Earlier movements of European capital to Canada for the most part occurred before the period under review. Much of the direct investment by Canadian companies in Latin America also occurred before this period.

Trade with other overseas countries has been consistently a substantial source of current surplusses providing exchange which could be converted into United States dollars to make payments in the United States. In each year during the period under review until 1937 the credit balance in Canada's current account with these countries has been the largest source of exchange for meeting deficits in the United States. In the years from 1937 until the beginning of the war when sterling ceased to be freely convertible, however, the credit balance with the United Kingdom was slightly larger than that in Canada's accounts with all other overseas countries.

TRANSACTIONS WITH THE UNITED STATES

(See Tables V and XII)

The fluctuation in economic conditions in Canada and the United States constitutes one of the most prominent factors influencing these trends in the balance of payments between the two countries. Relationships between the two countries are numerous and far reaching. Events in the United States, reflecting changes in the larger economy, directly influence the course of economic activity in Canada. The influences of conditions in the United States upon the world economy at large are also transmitted to Canada through their effects upon the fluctuations in Canada's trade with overseas countries as well because of the great importance which this external trade has for Canada. The level of production and incomes in the United States directly affects the welfare of many Canadian industries and trades dependent upon export demand. In many regions in Canada the primary economic stimulant comes from American demand. The volume of Canadian sales of goods and services in turn affects Canada's ability to purchase abroad.

Besides general economic fluctuations there have also been the effects of tariffs and commercial agreements upon the flow of commodities between Canada and the United States. Tariff increases in 1930 and later years introduced impediments to the flow of commodities in both directions. The combination of the effects of these barriers and the reduced demands and prices during the depression contributed to abnormally low levels of commodity movements in the balance of payments between Canada and the United States for a number of years. But later the Trade Agreements between Canada and the United States signed in 1935 and 1938, combined with the recovery in economic activity, led to substantial increases in the level of merchandise trade between Canada and the United States in the years immediately before the war.

The balance of payments between Canada and the United States has been characterized by deficits each year in the period from 1926 to 1943. These debit balances on current account were much heavier, however, in the earlier half of the period and reached their highest point in 1929 and adjacent years. There were substantial declines in the size of the debit balance each year from 1929 until 1936 when the current account with the United States was virtually in equilibrium. Substantial deficits again reappeared in later years particularly in 1938, but it was not until the period of the war that the deficits again approached the size which was characteristic of the period from 1926 to 1931.

The greatest fluctuations have occurred in gross payments by Canada over the period. This decline in debits was not only greatest in the depression but the level of debits in the later years of recovery before the war also marked a greater decline from the level of pre-depression years, both relatively and absolutely, than was the case with total credits. Because of these varying trends the balance of debits on current account in both depression and pre-depression years was much less than was the case before the depression. The principal reason for this trend in the current account balance has been the greater decline in imports over the longer period, and the growth in the value of net exports of nonmonetary gold. Principally because of the latter factor total receipts from gold and all other commodity exports in the pre-war years were close to the level of the pre-depression years, whereas in contrast imports were much lower than in the peak years.

The widest fluctuations have occurred in merchandise account. Both exports and imports have often shown wide variations from year to year but the annual changes in the balances on merchandise account have usually been less pronounced since both exports and imports frequently fluctuate in the same direction. In the declines from the levels of the 1920's, reductions in exports, however, were relatively less than declines in imports with the result that the deficit in merchandise account was much less after 1930 than before.

Trends in other items over the period have to some extent been offsetting; for example, while revenue from the tourist trade was greater in the pre-depression years, partly because of higher prices, debits on freight and shipping account were higher during the same period as a result of the larger volume of merchandise imports. The effects of fluctuations in the level of American travel expenditures in Canada are in themselves to some extent modified by trends in Canadian travel expenditures in the United States which usually move in the same direction as American expenditures in Canada. Payments on account of interest and dividends have been relatively stable throughout the period, being generally higher from 1929 on than in the earlier years because of the increased Canadian indebtedness to the United States. The rigid element in these payments arises from interest on bonds and debentures held in the United States, while the more flexible element is represented by the dividends paid by Canadian companies owned and controlled in the United States. The latter generally fluctuate in accordance with general economic conditions and are payable for the most part in Canadian dollars. But the major part of the interest is payable in United States dollars, and when the Canadian dollar is depreciated there is the addition of the premium on exchange. Receipts of income by Canadian investors from United States stocks and other securities generally fluctuated with changes in corporation incomes in the United States somewhat similarly to variations in Canadian payments of dividends, the amounts remitted in both directions varying to some extent with economic conditions. All other current transactions are also to a large extent offsetting. The volume of both receipts and payments is, however, quite substantial and normally results in a balance of payments by Canada. Included in these transactions are the many exchanges of business and professional services which enter into the international commerce of the two countries. There is also a variety of personal and institutional remittances and the transfers of incomes in both directions earned across the border by persons working in one country and residing in the other.

Since the main changes in the current account balance arise from the merchandise trade various influences upon commodity movement have been the main factors contributing to the fluctuations in the current account deficits. The large deficits prior to the depression were affected to a large extent by heavy Canadian demand for American merchandise during the pre-depression years. A larger part of the gross national expenditure of Canada in those years was spent on investment in Canada. The heavy investment in these years created extraordinary demands for capital goods and this was reflected in the large volume of imports of durable goods from the

United States. Canadian purchases of industrial materials and components required for construction and production in Canada arising out of this extraordinary level of private and business investment in Canada also contributed to the heavy imports from the United States during this period. At the same time the expenditures in the United States arising from Canadian consumer demands also reached unusual levels. Incomes in the prosperous years before the depression were not only high but widely distributed.

Imports from the United States declined during the depression and although they increased during the years of recovery, they never regained anything like the pre-depression level. The total in 1937 of $463 million compares with $875 million in 1929. A large part of the reduction occurred in metal products. Imports of iron and its products were unusually high in 1929 and earlier years, reaching $309 million in 1929, whereas the highest level reached in the post-depression years before the war was $174 million in 1937. A large part of this drop occurred in machinery and other capital equipment of various kinds. Other significant declines were in imports of automobiles and primary steel. Another group of imports which dropped very sharply during the same period was agricultural and vegetable products, which declined from $103 million in 1929 to $44 million in 1937. Some of this latter decline arose from changed practices with regard to rubber and other tropical products purchased in the United States. There were sharp proportionate declines in many other groups of imports as well, but the absolute amounts were not as large as in the above two groups. The declines in non-metallic minerals and products and chemical and allied products were less abrupt and to a greater extent were due to lower prices. To some extent the declines in imports were the result of increased and more varied manufacturing capacities in Canada. In other respects they were directly attributed to the greater reduction in capital investment in Canada in the years of recovery after the depression in contrast to the heavy expenditures on investment in the 1920's.

Canadian exports to the United States did not fluctuate as widely as was the case with imports. The decline during the depression was less proportionately than the decline in imports. Exports in 1932 were about 32% of exports in 1929, whereas imports in the same year amounted to only 28% of imports in 1929. The revival in exports which, in 1937 amounted to 75% of the total in 1929, was greater than in the case of imports which, in 1937 only amounted to 53% of imports in 1929. The debit balance from merchandise trade was sharply reduced, consequently, in the depression. It had been as high as $358 million in 1929, but in 1932 was $77 million and in 1933, $28 million. In 1937 it had only expanded to $72 million but showed a sharp increase in 1938 as a result of the effects of the recession in the United States when exports from Canada fell more sharply than Canadian imports. The debit balance on merchandise trade amounted to $132 million in 1938. To a considerable extent the lower level of exports in 1937 was due to lower prices. While a reduced volume contributed to much of the decline there were some important groups of commodities which were exported in greater volume. The decline in value was less sharp, however, in exports of non-ferrous metals and non-metallic minerals. In contrast to the general decline in exports of commodities was the outstandingly large increase in net exports of non-monetary gold which is not included in the commodity exports commented on. Gold production in Canada increased very rapidly and fairly consistently during the 1930's. The increase in the price of gold in the United States was a further contributor to higher receipts from non-monetary gold.

These two factors, the great increase in receipts from gold production and the greater contraction in imports than in exports of other commodities, both contributed to the reduced deficits in Canadian current account with the United States during the 1930's. To some extent the decline in imports must be associated with the relatively lean period of investment in which it occurred. Both private

and public investment in Canada were at a low ebb during and after the depression and there was consequently much less demand for imports of capital goods and many of the materials imported in connection with investment in Canada. At the same time, however, United States demand for Canadian commodities was also abnormally low, because of the low level of incomes and economic activity in that country during most of the pre-war period following the depression. Prices of exports were also relatively lower than imports in comparison with the pre-depression period, the terms of trade having moved unfavourably for Canada during the depression and having only recovered partly after.

Capital movements between Canada and the United States have followed fairly definite courses in two distinct periods during the years under review. Between 1927 and 1932 there were substantial imports of capital from the United States. These were particularly heavy between 1929 and 1931. In each year inflows from the excess of new flotations of Canadian bonds in the United States over issues retired there contributed to a large part of the movement as during this period American holdings of Canadian bonds increased very appreciably. There was a counter movement of capital arising mainly from the investment by Canadians in United States securities. These outflows were particularly substantial between 1926 and 1928 when Canadian holdings of American stocks grew rapidly. Another important source of capital inflow arose from the reductions in the external assets of Canadian chartered banks. Withdrawals of these funds from New York were especially large in 1928 and 1929. Other capital movements, arising chiefly from the direct investment of American capital in branch and subsidiary companies in Canada, were also substantial, particularly between 1929 and 1931. The net effect of these various movements of capital was that there was a predominantly inward flow of capital from the United States to Canada between 1927 and 1932. In 1926 and in certain earlier years inflows were exceeded by outflows from Canada for investment in securities. This inflow of capital from the United States between 1927 and 1932 provided an offset to some of the large current account deficits which prevailed during these years. Part of the current account deficits can, of course, be attributed to some of the inflows of capital since the heavy investment in Canada during this period contributed to the high level of Canadian imports from the United States.

The movement of capital from 1933 to the beginning of the war was predominantly from Canada to the United States. In each year during this period retirements of Canadian securities in the United States exceeded new issues by a wide margin. There were also outflows of capital in connection with direct investments, both in the case of external investments in Canada and new Canadian direct investments abroad, and inflows of capital in some years from insurance company operations. The international trade in outstanding securities during the same period displayed less regularity, there being wide swings in the volume and direction of the movement of capital from one year to another. Consequently, the net movement from this group of transactions was to a large extent offsetting between 1933 and the beginning of the war, although the volume of the turnover of securities was very great. The predominantly outward movements of capital between 1933 and 1939 occurred during a period when Canada's current account deficit with the United States was more moderate than had been the case during the period of capital inflow. Consequently the above divergent movements of capital and the trend in the current account with the United States lead to a smaller balance of debits from total current and capital account transactions during the years between 1927 and 1932, and maintained a substantial balance from total current and capital transactions during the period 1933 to 1939, capital debits during these latter years adding to a lower level of current debits to produce quite substantial net debits with the United States from all transactions.

The source of foreign exchange which Canada was able to employ before the war to meet the consistently large requirements for United States dollars, arising from total current and capital transactions, was the balance of current credits from trade with overseas countries as has already been described. In each year there was a substantial surplus from overseas. Between 1926 and 1932 the group of overseas countries other than the United Kingdom was the source of current surpluses, since current transactions with the United Kingdom during each of these years, with the exception of 1926, resulted in a net debit. From 1933 on, however, there were also growing current account surplusses with the United Kingdom as well. But during the same years, the current surplus with other overseas countries was lower than had been the case prior to 1930.

POST-WAR OUTLOOK

During the transitional years after the war there will be special needs for credits to fill the gaps which arise from the heavy current demands for commodities during this period. The current accounts of many countries will be widely out of balance for a considerable period, because of the abnormal demands for food, raw material, capital equipment and other commodities and services which will exist during the transitional years. The international demands arising out of rehabilitation needs will be very great. Besides the restoration of the physical damage caused by the war, there is also the accumulation of unsatisfied demands during the wartime period and the replacement of capital equipment which has been badly depreciated under wartime conditions. While in some cases these abnormal needs will be met by organizations such as UNRRA, there are other transitional requirements for commodities which will have to be paid for by the countries receiving the commodities. Many of these countries have very limited international cash reserves and it will consequently be necessary for them to borrow in important countries of supply like Canada, through credit facilities such as those set up under the Canadian Export Credits legislation. There will be also, for example, credits necessary to finance the large gap anticipated in the current accounts of the sterling area with Canada, for so long as sterling is not freely convertible, there will be a large shortage of Canadian dollars in the countries of the sterling area arising out of the heavy requirements for Canadian commodities which will greatly exceed the amount of commodities which Canada buys in these countries.

Canada has been a consistent exporter of capital on balance for over a decade. Each year since 1934 there has been a balance of credits on current account. Even before the war these credit balances, reflecting an outflow of capital from Canada, were substantial, being as high as $244 million in 1936. In the six years from 1934 to 1939 the credit balance on current account averaged $140 million per year. Most of the export of capital during this period took the form of reductions in Canadian liabilities abroad. Canadian bonds owned abroad were redeemed in substantial amounts. Other liabilities were reduced and there was some expansion in Canadian assets abroad as well. During the war the credit balance on current account has grown very rapidly. In some of the later years of the war it has been approximately ten times the size immediately before the war.

While the circumstances behind this growth are abnormal, the wartime achievements are suggestive of Canada's potentialities as an exporter. A net annual export of capital much in excess of the pre-war average would appear well within the productive and financial capacity of the country. The extent to which exports of capital from Canada expand after the war will depend to a large extent upon many circumstances, including the general background in which international economic relations are conducted, and future levels of Canadian imports. In an expanding world economy, Canada could occupy a prominent place as an exporter of capital. The form which international lending takes after the war may be quite different from before the war. New circumstances and new requirements in the world economy are creating new methods and forms of international adjustment.

Canada's experience during the war has shown clearly how important it will be to have the general convertibility of currency restored. For as long as the conditions of exchange inconvertibility continue, there will be the problems of financing the large balances which result from commercial relations with the two important currency areas, the sterling area and the United States dollar area. In the case of Canadian trade with the sterling area it will be necessary to provide credits to cover the balance arising from the large excess of exports over imports and other normal current and capital payments. Similarly, if large current account deficits with the United States are again experienced, these will have to be covered

by either imports of capital or the use of Canada's liquid reserves of gold and convertible currencies. For so long as a period of inconvertibility of sterling into other currencies continues, there will have to be an entirely new type of background for conducting international trade. There is the hope, however, that conditions of this kind will prove to be only temporary and that eventually there will be a restoration of exchange convertibility and the multilateralism in trade which accompanies it. A system of multilateral trade in which currencies will again be freely converted will permit international purchases to be made freely without regard to bilateral limitations. The expansive potentialities of international trade along multilateral lines stimulated by the international credits which will be needed to restore the world economy and by reductions in trade barriers would do much to raise incomes throughout the world and to expand the volume of international commerce. Under such conditions there would be no need for the restrictions and readjustments dictated by bilateralist situations.

If, however, multilateralism is not restored in the near future, measures of a different character would have to be devised for settling the international balances which arise out of the current exchanges of goods and services between Canada and other countries. There are various ways in which a problem of this kind could be met. For instance, besides employing international credit, it would be possible to reduce some of the gaps in international accounts by diverting trade into channels which do not create large current account balances. But it should be recognized that extreme adjustments along any one line would greatly alter the pattern of the economic relations which have developed in the past as a result of free economic growth, particularly between Canada and the United Kingdom and the United States.

But diversions of trade would be particularly disrupting, if this condition of exchange inconvertibility which exists at the beginning of the post-war period turns out to be only a temporary obstruction to international trade. Diversions of imports on a large scale would be a difficult and distasteful undertaking for a country with a general pattern of trade like Canada's, as it would entail the disturbance of many established commercial and industrial relations. It would be most undesirable to have disturbed normal commercial dealings which take place between nations because of relative advantages which there are in international trade. It would obviously be impossible to bring the Canadian balance of payments into equilibrium with either the sterling area or the United States dollar area without far-reaching interference with the normal courses of trade. An early restoration of conditions of multilateralism accompanied by the expansive effects anticipated from such a development would provide an international background more suitable to the structure of the Canadian balance of international payments. The international monetary fund and the bank for reconstruction and development proposed by experts at Bretton Woods are institutions of the type needed to assist in creating the conditions which will make possible a restoration of multilateralism. The Canadian legislation for providing export credits will also be an important means of assisting trade during the transitional years.

BRITISH AND FOREIGN CAPITAL INVESTED IN CANADA AND CANADIAN CAPITAL INVESTED ABROAD, 1926-1939

British and Foreign Investments in Canada

In the present bulletin the main features in Canada's international investment position before the war are presented. In a subsequent more comprehensive bulletin which it is planned will be issued in the near future, a more detailed analysis of external long-term investments in Canada and Canadian long-term investments abroad will be made showing the main changes which have occurred during the war. At the end of 1939 total British and foreign investments in Canada were estimated at $6,926 million. While the exact distribution of ownership of this total is not known, an indication of the ownership is given by the countries in which the securities are held. Investments held in the United Kingdom were estimated at $2,466 million. Besides including British owned investments this total also includes investments held in the United Kingdom by nominees for residents of other countries. The value of investments held in the United States at the same time amounted to $4,190 million. While generally indicative of American ownership, this total also includes an indeterminable amount of securities held in the United States by nominees for residents of other countries. The remaining amount, $270 million, was owned in other overseas countries. The total investments in Canada owned in these other countries would include, therefore, the $270 million plus the indeterminable amounts included in the British and United States totals shown.

Summary Non-Resident Investments in Canada - 1926-1939

(Millions of Canadian Dollars)

	1926	1930	1933	1939
Held in United Kingdom	2,636.3	2,766.3	2,682.8	2,465.9
Held in United States	3,196.3	4,659.5	4,491.7	4,190.0
Held in Other Countries	170.0	188.0	190.0	270.0
Total Non-Resident Investments	6,002.6	7,613.8	7,364.5	6,925.9

The total of non-resident investment in Canada in 1939 was considerably less than in earlier periods. Both the totals held in the United Kingdom and the United States were lower than in 1933, mainly as a result of the substantial retirements of Canadian bonds and debentures held in these countries during the years immediately before the war when Canada had a surplus on current account and was exporting capital on balance. The amount owned in other countries in 1939 was higher than in earlier years as a result of the inflow of capital from Europe to Canada during the years immediately preceding the war. While the total of non-resident investments in 1939 was less than in either 1933 or 1930, it was still much larger than in 1926, the $6,926 million in 1939 comparing with $6,003 million non-resident investment in Canada in 1926.

More than half of the investment in Canada in 1939 was represented by bonds and debentures. This portion of the investment, amounting to about $3,500 million, gives rise to large contractual payments of interest requiring foreign exchange. Total interest paid in 1939 on Canadian bonds and debentures owned by non-residents of Canada amounted to about $136 million, the larger portion of which represents a payment to United States in Canada's current account. This total of Canadian bonds and debentures owned abroad is however a relatively small portion, about one-third, of the total funded debt of the Canadian Government and corporations which ap-

proximated ten billion dollars at the end of 1939. The portion of outstanding bonds at the present time is even less as a result of repatriations during the war and the great growth in Dominion Government bonds sold to Canadian residents during the war. Non-resident holdings of government securities represented about $1,672 million of total holdings of $3,500 million bonds outside of Canada. Holdings of Canadian National Railway issues, estimated at $728 million in 1939 made up a large part of the remainder.

Investments by non-residents in Canadian businesses including the railways total about $5,254 million. This investment is of varying importance in different Canadian industries. British and foreign capital have been an important source of investment in many industries. There are some groups of industries where non-resident capital accounts for the predominant part of the total investment, but there are other groups where capital of Canadian origin accounts for the major part of the investment. While non-resident ownership of industries in the chemical and allied product group represented 79% of the total investment, the corresponding percentage in the textile group of industries is only 17%. The average percentage of non-resident ownership in all manufacturing enterprises is 42%. The external investment in mining and smelting companies was also of comparable proportions, amounting to 42% of the total investment. In the case of railways the non-resident investment was 57%, while non-resident investment in companies and commissions operating central electric stations was only about 25%. Only a very minor part of the capital invested in merchandise comes from non-resident sources, the percentage being 9.

Percent of British and Foreign Ownership
of Canadian Industry - End of 1939.

Type of Industry	% of Non-Resident Ownership	
All Manufacturing enterprises		42
Vegetable products	43	
Animal products	22	
Textiles	17	
Wood and paper products	47	
Iron and its products	34	
Non-ferrous metals (1)	77	
Non-metallic minerals	46	
Chemicals and allied products	79	
Miscellaneous manufactures	56	
Mining and Smelting companies (2)		40
Railways and Other Utilities		45
Steam railways	57	
Power Companies & Commissions	25	
Other Utilities	31	
Merchandising establishments		9
Total of all above concerns		38
Financial Institutions		43

(1) Includes smelting of imported ores.
(2) Smelting restricted to domestic ores.

An important part of the United States investments in Canada is represented by the so-called direct investments. These are investments in branch, subsidiary and controlled companies and include the branch plants of American industries which operate in Canada. The total value of the investment in companies controlled in the United States at the end of 1939 was $1,919 million. More than half of this total, $984 million was in manufacturing establishments. American direct investments in public utilities were also heavy, the total invested in railways and public utilities controlled in the United States being $437 million. Investments in mining concerns controlled in the United States amounted to almost $200 million and merchandising and financing concerns controlled in the United States accounted for most of the remainder.

Value of United States Investment in Canada in Companies controlled in the United States, December 31, 1939.

(Millions of Dollars)

Manufacturing	983.7
Mining	197.8
Railways & Public Utilities	437.4
Merchandising	119.3
Financial	125.9
Miscellaneous	55.4
	1,919.5

Portfolio investments in Canada owned in the United States amounted to about $2,186 million in 1939 apart from scattered individual holdings of securities included in the total American investment in branch, subsidiary and controlled companies. Some of the latter is made up of a large number of individual holdings of stocks and bonds in companies which are controlled in the United States and consequently specified as American direct investments in Canada. Most of the above total of portfolio investments is made up of holdings of Canadian bonds, which amounted to $1,809 million. In addition there is the indeterminable part of the American holdings of bonds of American controlled companies in Canada which might also properly be regarded as portfolio investments. The total bonds of American controlled companies held in the United States in 1939 was $306 million. In addition there were American holdings of stocks of Canadian controlled companies. The book value of these in 1939 was $354 million. There was also an indeterminable amount of the stock holdings of Canadian companies controlled in the United States which are comparable to portfolio holdings and investments of $13 million in the capital stock of Canadian companies controlled in the United Kingdom and elsewhere and various other small items. Miscellaneous investments in Canada are estimated at $85 million. Included in this figure are estimates of a great variety of non-corporate assets in such forms as mortgages, agricultural lands, summer homes, prospecting, estates and trusts and other assets administered for persons or corporations in the United States.

British investments in Canada were predominantly portfolio investments. These amounted to $1,988 million and the major part of this total was made up of holdings of bonds. Total holdings of bonds in the United Kingdom were $1,315 million at the end of 1939. This total includes the $52 million of bonds of companies controlled in the United Kingdom but excludes about $75 million of the first Dominion issues repatriated from the United Kingdom in the latter months of 1939. This was the first part of the official repatriations which was one of the earlier methods employed in financing the British deficiency of Canadian dollars arising from the

war. The book value of British holdings of stock of Canadian controlled companies was very large, amounting to about $660 million. A large part of this total was represented by holdings of railway stock. Other British portfolio investments in Canada included $55 million stock in Canadian companies controlled in the United States. British direct investments in Canada in branch, subsidiary and controlled companies totalled $366 million. The value of British holdings of capital stock of Canadian companies controlled in the United Kingdom made up $194 million of this total and the net assets of insurance companies and other corporation assets amounted to another $121 million. British investments in Canadian real estate, mortgages and various assets administered for British investors including the Canadian assets of British investment companies are estimated at $120 million.

The major part of the investments of other overseas countries in Canada are made up of portfolio holdings. Of the total of $270 million which can be direct attributed to other overseas countries, $71 million is made up of portfolio investments of Canadian bonds and stocks. Direct investments in companies controlled in these countries totalled about $49 million. An estimate of miscellaneous assets accounts for another $50 million.

Changes in the Balance of Canadian Long-Term Indebtedness to Other Countries During the War.

During the war there has been a very sharp reduction in the balance of Canadian indebtedness to the United Kingdom, whereas the balance of Canadian indebtedness to the United States has increased appreciably.

The change with respect to the United Kingdom position has, of course, arisen out of the financing of the British shortage of Canadian dollars accompanying the swollen British wartime demands for food, munitions and raw materials in Canada. While Mutual Aid and the Billion Dollar Contribution provided the principal method of financing the British deficiency, there were other methods of a capital character employed earlier during the war which affect the balance of indebtedness. The first of these methods was the official repatriation of Dominion Government securities held in the United Kingdom. During the course of the official repatriation operations a total of more than $700 million of Dominion Government and Canadian National Railway issues held in the United Kingdom were repurchase by the Canadian Government. Further reductions in British holdings of Canadian securities have arisen from other redemptions of securities and private repurchases of securities by Canadians through the security markets. The result of these official and private repatriations is that British holdings of Canadian Government securities are now limited to relatively small amounts of provincial and municipal issues in addition to the variety of Canadian corporation securities which are still held in the United Kingdom. Changes in other British assets in Canada as, for instance, in British direct investments in subsidiary companies have been smaller. The result of these wartime changes is that British holdings are now concentrated in holdings of equity securities, rather than of bonds and debentures. While the book value of these holdings is substantial, market prices prevailing in recent years for some of the important holdings of stocks are much less than the book values.

Another method of financing the British deficiency in Canada early in the war was through the accumulation of sterling balances by the Foreign Exchange Control Board. This method of financing was discontinued in 1942 with the appropriation of one billion dollars by the Canadian parliament as a Contribution to the Government of the United Kingdom. During the same year the major part of the accumulated sterling balances was converted into a loan of $700 million by the Canadian Government to the British Government. By the end of 1944 the amount of

the loan outstanding was approximately $625 million.

In contrast to the reduction in Canadian indebtedness to the United Kingdom has been an appreciable increase in Canadian indebtedness to the United States arising out of private capital movements. United States investments in Canada are now larger than before the war, whereas Canadian holdings of United States securities are smaller.

The increased American investment in Canada has principally followed two courses. There has been a large increase in American portfolio holdings of Canadian bonds and debentures. In each year since 1942 there have been heavy American purchases of Canadian outstanding securities, particularly government and government guaranteed bonds. These have considerably exceeded the total of retirements during the war of Canadian bonds owned in the United States. The other principal channel of investment has been the growth in value of American direct investment in branch and subsidiary companies in Canada. The major part of this increase in investments has been through the re-investment in Canada of the earnings from the Canadian plants.

At the same time Canadian holdings of United States securities are much lower now than at the beginning of the war. There has been a steady liquidation of holdings arising from sales in American security markets by private investors. Most of these sales are sales of common and preference stock of United States companies. These changes in Canada's assets and liabilities vis-a-vis the United States have combined to increase appreciably the balance of Canadian long-term indebtedness to the United States.

Basis of Valuations

It is important to note the basis of valuation employed in arriving at the statistics of British and foreign investment in Canada for no basis of vaulation is ideal for all purposes. In the case of bonds and debentures par values expressed in Canadian dollars are shown, issues based in sterling or United States dollars being converted at the par of exchange. These values are more representative of the capital invested than are market values. In the case of stocks and other investments in corporations the book values reflecting on the balance sheets of the Canadian companies are shown. This provides a more stable basis of valuations than do market values. In fact over a wide range of investments, particularly in the field of direct investments there is no market value available. The book value of stocks furthermore reflects the investment or dis-investment of current earnings in Canada. The valuation bases employed are, therefore, not indicative of the liquidation value of the investments.

A calculation of the market values of stocks listed on the Canadian stock exchange shows when compared with book values, that the market value of United States holdings is much greater than the book value for the same group of stocks. Exactly the reverse appears when the lower value of British holdings of stocks are compared with book values. In the case of British investments, market values in recent years have been much lower than the book values, mainly because of the predominance of holdings in railway stocks. In the case of bond issues market values would show considerably higher amounts than the par values in the case of many issues, particularly issues payable in United States dollars, because of the premium on this currency at the end of 1939. Sterling issues on the other hand would have a lower value if calculated in Canadian dollars at the official rate of exchange at the end of 1939.

Canadian investments abroad have been calculated in terms of Canadian dollars at market rates of exchange because of the necessity of expressing such a

variety of investments in common terms. While the market values of Canadian holdings of United States stocks at the end of 1939 were not widely different from the book values as shown on the balance sheets of the principal American companies whose stocks are held in Canada, there would be a wider difference between the market value of many of the Latin American and European bonds held and the par value at which these issues are shown. Market values of this group of issues in the aggregate have been very considerably depreciated for a period of years.

Canadian Investments in British and Foreign Stocks and Bonds

Canadian direct and portfolio investments abroad totalled $1,340 million in 1939. The major part of this total, $898 million, represents investments in the United States, while investments in the United Kingdom were $74 million, in other Empire countries $76 million, and in other foreign countries $292 million. These figures exclude the investments abroad of Canadian insurance companies and banks and official assets such as cash balances, gold and intergovernmental credits. Also excluded are relatively small amounts of miscellaneous investments such as, real estate, mortgages, etc., which are not represented by securities and which are difficult to evaluate.

Direct investments, amounting to $621 million, made up almost half of the total. The largest part of these, $397 million, was in the United States and a large part of the remainder, $129 million, was in other foreign countries. It should be noted that some of these direct investments abroad are investments by Canadian companies in which there are varying degrees of non-resident interest. The amount of the direct investments in which there is a clear Canadian beneficial ownership would be considerably less than the total of all direct investments of Canadian companies.

Portfolio investments in foreign securities valued at $719 million at the end of 1939 are divided between $511 million of stocks and $208 million of bonds, the stocks being valued at book values and the bonds at par value. While the market value of most of the stocks had about the same aggregate value in 1939 as the book value, the market value of many of the holdings of bonds was considerably less than the par value. The figures shown for both stocks and bonds are the Canadian dollar equivalents of the value in United States dollars or other foreign currencies converted at current exchange rates. Portfolio investments in the United States amounted to $501 million, in the United Kingdom $43 million, in other Empire countries $22 million, and in other foreign countries $153 million.

The external assets of Canadian banks and insurance companies have been excluded as these assets must be considered in relation to the external liabilities of these concerns arising from their position outside of Canada. Canadian insurance companies have large holdings of British, United States and foreign securities but because of the fiduciary nature of the position the liabilities to the policy holders must be considered. Total liabilities outside of Canada exceed total assets outside of Canada. This is possible because the assets underlying the reserve funds need not all be held in foreign securities. The relative distribution of assets and liabilities in some countries and currency areas is different from this however. In the United State, for example, assets exceed liabilities, whereas in the United Kingdom and some other areas the reverse is the case. The relative mobility and liquidity of many of the assets make this possible. Because of this situation and the limited significance in the distribution of insurance assets by countries there have been no figures on insurance company investments shown in the table of estimated Canadian investments abroad.

STATISTICAL NOTES

Merchandise Trade

While export and import statistics are the principal source used for this item they have been adjusted to bring them more into conformity with payments in the two currency areas into which the balance of payments statements are divided.

During the period when data on international payments for war supplies through official channels were available these have been substituted for the value of goods exported. Thus, in the years 1941 to 1944, British payments through official channels for war supplies and food, and payments by the United States government for war supplies and metals exported under the Hyde Park agreements have been entered as credits in the merchandise account rather than the value of the goods exported. Similarly, in 1943 and 1944 the expenditures from the Mutual Aid Appropriation on account of the various countries are reflected rather than the commodities exported. Since war supplies purchased by the British and United States governments have been shipped to various destinations this substitution of financial data on payments for the value of goods shipped has been a major adjustment necessary in the construction of balance of payments statements with the two currency areas for the years from 1941 to 1944. The figures in the merchandise item of the tables are accordingly indicative of international payments rather than of shipments of goods to the various countries and areas. Exports are also adjusted on account of wheat and other grain movements for storage. Adjustments have also been made for diversions of grain throughout the period 1926 to 1944. In the years from 1926 to 1930 these adjustments were particularly substantial when large amounts of wheat originally recorded as exported to the United Kingdom were eventually sold in Continental Europe. The adjustments made take the form of deductions from recorded exports to the United Kingdom and additions to recorded exports to other countries. Trade between Canada and Newfoundland has been excluded and shipments of merchandise on Canadian account such as equipment and supplies for the Canadian forces overseas, Red Cross supplies and private gifts have also been deducted from the exports as no foreign exchange accrues from these transactions.

Imports of merchandise into Canada for the account of British or Allied Governments have also been deducted from the trade figures. These deductions cover such imports as goods which the British government has shipped to Canada as part of its contribution to the Combined Air Training Organization and equipment and supplies for the R. A. F. Special Schools in Canada before their absorption into the Combined Organization. Imports from the United States which have been deducted, are principally made up of aircraft, aircraft engines and parts and other military equipment, and materials for British or Allied organisations in Canada which are not paid for by Canada. Imports are adjusted for warehousing and for over-valuation. In 1943 and 1944 payments made on account by the Canadian government for military equipment and supplies purchased in the United States under the "Canpay" procedure are reflected in the item of imports from the United States rather than the goods imported during the period. Under this procedure certain goods were purchased from the government of the United States through the Office of Lend Lease Administration for reasons of procurement and priority.

As a result of these adjustments, the merchandise item is more representative of the international payments made between Canada and the various countries and areas shown, particularly during the wartime years. There is still, however, the possibility of divergencies between the time of payment and the time of import or export in the large volume of trade which continues to flow through private channels although some adjustment for these in the case of intra-company transactions appears elsewhere in the balance of payments.

Net Exports of Non-Monetary Gold

This item is the value of "Net Exports of Non-Monetary Gold" as computed by the Bank of Canada and explained on page 152 of the September, 1939, Bank of Canada Statistical Summary. The figures correspond roughly to the value of current production in Canada. The total net exports have been shown in the current account with the United States although in the pre-war period, for instance, there were some exports of gold coin to overseas countries arising out of temporary market conditions in which there was a premium on the price of foreign gold coins. One reason for the procedure followed of showing all non-monetary gold in the current account with the United States was to show a current account with the United Kingdom in these years which is more representative of the more normal commercial trade between Canada and the United Kingdom than is the case when exports of gold coin are included. At the same time the United States has been the principal market for the world's gold production. Then, too, as gold is interchangeable with United States dollars, gold along with holdings of United States dollars has constituted Canada's liquid reserve of convertible exchange during the war, changes in which are entered in the capital account.

Tourist Expenditures

Estimates of tourist expenditures have been greatly improved in recent years. Through the co-operation with the Dominion Bureau of Statistics of the Customs Division of the Department of National Revenue and the Immigration Branch of the Department of Mines and Resources new methods of estimating tourist expenditures, first introduced in 1940, have resulted in a greater volume of data than was formerly available. In 1941, a more extensive organization of tourist statistics procedure was undertaken. Progress was made, especially in the estimation of the expenditures of automobile tourists. A more uniformly classified count of the automobile traffic was obtained as a basic record of traffic. In addition, larger and more representative samples of tourist expenditures were collected. In 1943, 82% of all the United States motorists entering Canada on a travellers' vehicle permit reported their total expenditures in Canada. At the same time, a sample of approximately 52% was obtained from short-term local United States tourists crossing into Canada. Virtually all of the expenditures of Canadian motorists in the United States were also covered by a sample which exceeded 97% of the total traffic.

The estimates of expenditures in the years 1926-1939 have been revised in the light of information accumulated in recent years, whereas the estimates for 1940-1944 directly reflect the new procedure developed in 1941. In the revision of the pre-war years the new data on expenditures accumulated during the war have been related to the statistics on the volume of traffic before the war. Since this method has some arbitrary aspects the resulting estimates for the pre-war years have not as substantial a basis as the estimates for later years. It is believed, however, that they are fairly representative of the level of expenditures in the pre-war years. The new estimates point to much lower levels of expenditures in the pre-war years, particularly in the case of expenditures of United States travellers in Canada, than the estimates originally published.

Interest and Dividends on Securities

This item is limited to interest on bonds and debentures and dividends paid on stock. The earnings of externally owned concerns which are reinvested in Canada are not included. Some remittances of income on investments other than securities, for which data are available for the period from 1940 to 1944 for the first time, have been included in the item "All Other Current Transactions".

Estimates of these miscellaneous income items have been included in the latter item for the pre-war years as well.

Revenue accruing to residents of enemy occupied and proscribed territory from investments in Canada, is entered as a debit in the interest and dividend item, and offset by a credit entry in the capital account.

Freight and Shipping

This item includes estimates covering ocean shipping operations, freight paid to United States railways on imports, inland freight earned by Canadian transportation companies carrying exports to the United States border or Canadian ocean ports, revenue received by Canada from intransit traffic, and payments for marine and war-risk insurance on goods imported into Canada from overseas. The accounts between the two currency areas have been adjusted to allow for the U. S. dollar cost of prepaid freight on exports to the Sterling Area.

Ocean shipping transactions include: freight paid to British or foreign ships on imports, expenditures abroad on account of Canadian ships, payments by Canadian companies for the charter of British or foreign ships, earnings of Canadian ships on exports and on traffic between foreign ports, revenue of Canadian companies from the charter of ships and expenditures in Canada on account of British and foreign ships.

All Other Current Transactions

This item includes government expenditures, a wide range of miscellaneous transactions mostly in the field of services, and some unusual transactions which have occurred during the war, and which are not readily classified in any other item. In comparisons of this item from one year to another, its varied composition should be taken into consideration. The treatment of some types of transactions also varies during the period, the net balance being entered in some years and the gross transactions in others.

Government expenditures are more important in the years 1941-1944 than in previous years and represent the bulk of the item in the account with Empire Countries in these years. The expenditures of the Dominion government in connection with the maintenance of the Canadian armed forces overseas is the most important part of the government expenditures among the debits, and the expenditures of the British government on air training and other wartime activities in Canada, and the expenditures of Australia and New Zealand on air training are the most important among the credit entries for government expenditures in the account with Empire Countries. Payments by the Canadian government for imports of goods and by the British or Allied governments for goods exported, are, of course, not included in this item as they are part of the item "Merchandise Trade". Nor does this item include government transactions belonging to the capital account such as official repatriations, changes in official balances and capital expenditures by the United Kingdom Government.

Also included are variable transactions such as Newfoundland's balance of United States dollar receipts which, from 1941 to 1944, were heavier than usual chiefly owing to the expenditures of the United States Government on bases in Newfoundland. The expenditures of the United States Government on the Alaska Highway and other developments in Canada are also an important source of credits included from 1942 to 1944. In 1943 these expenditures were so heavy that they became a dominant element in the credit item. In 1944 an important part of other current debits in the account with the United States is made up of special payments to the

United States Treasury to cover the repurchase of air fields and telephone line and other settlements.

Among the miscellaneous transactions which have been consolidated into this item are personal and immigrant remittances, religious and benevolent remittances, war funds and other private remittances to the armed forces overseas, motion picture and other royalties, earnings of Canadian residents employed in the United States and United States residents employed in Canada, commercial and financial services, telegraph and cable, professional, technical and management services, operating expenses of offices and agencies, and other sundry services. While these personal remittances and service transactions constituted the bulk of the item before the war they now represent a minor part due to the great expansion in government expenditures on services mentioned above.

The item also includes miscellaneous remittances of income for which data first became available from sources developed in 1940. These remittances cover interest on mortgages and loans, rents, crop share rentals, profits from speculation and certain types of business, income received by Canadians from foreign estates and trusts, etc. Estimates of this miscellaneous income have been included for the pre-war years as well.

Balancing Item

This is a balancing item between the current and capital accounts, and is a reflection of errors or omissions in the statements since in a perfect balance of payments statement, the net balances in the current account and the capital account would exactly offset one another. In the years 1940 to 1944 this relationship exists in the accounts with the Empire and the Non-Empire as well as in the statement with all countries due to exchange control and the consequent existence of two distinct accounts. In statements for the years 1937 to 1939 this relationship only applies to the account with all countries since in the period before exchange control, balances in the account with sterling area countries were freely convertible into United States dollars.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table I - Current Account Between Canada and All Countries, 1926-1944

(Millions of Dollars)

Year	Current Receipts	Current Expenditures	Net Balance on Current Account
1926	1,665	1,538	+ 127
1927	1,633	1,643	- 10
1928	1,788	1,820	- 32
1929	1,646	1,957	- 311
1930	1,297	1,634	- 337
1931	972	1,146	- 174
1932	808	904	- 96
1933	829	831	- 2
1934	1,020	952	+ 68
1935	1,145	1,020	+ 125
1936	1,430	1,186	+ 244
1937	1,593	1,413	+ 180
1938	1,361	1,261	+ 100
1939	1,457	1,331	+ 126
1940	1,776	1,627	+ 149
1941	2,458	1,967	+ 491
1942	3,376	2,275	+ 1,101
1943	4,064	2,858	+ 1,206
1944	4,536	3,539	+ 997

Table II - Geographical Distribution of the Balance on Current Account Between Canada and Other Countries, 1926-1944

Net Receipts or Credits (+); Net Payments or Debits (-)

(Millions of Dollars)

Year	All Countries	United Kingdom (1)	Other Overseas Countries (2)	United States (3)
1926	+ 127	+ 58	+ 300	- 231
1927	- 10	- 19	+ 257	- 248
1928	- 32	- 21	+ 338	- 349
1929	- 311	- 99	+ 225	- 437
1930	- 337	- 106	+ 113	- 344
1931	- 174	- 54	+ 85	- 205
1932	- 96	- 14	+ 86	- 168
1933	- 2	+ 26	+ 85	- 113
1934	+ 68	+ 46	+ 102	- 80
1935	+ 125	+ 62	+ 92	- 29
1936	+ 244	+ 122	+ 123	- 1
1937	+ 180	+ 135	+ 122	- 77
1938	+ 100	+ 127	+ 122	- 149
1939	+ 126	+ 137	+ 105	- 116
1940	+ 149	+ 343	+ 98	- 292
1941	+ 491	+ 734	+ 75	- 318
1942	+ 1,101	+ 1,223	+ 58	- 180
1943	+ 1,206	+ 1,149	+ 76	- 19
1944	+ 997	+ 746	+ 234	+ 17

(1) Excluding wheat exports diverted to other overseas countries, and exports of gold.
(2) Including estimated wheat sold in European Countries.
(3) Including all net exports of non-monetary gold.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table III - Revised Estimates of Current Account Between Canada and All Countries
(Millions of Dollars)

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
A. Current Credits with All Countries											
Merchandise exports	1,272	1,215	1,341	1,178	880	601	495	532	648	732	954
Tourist and travel expenditures	152	163	177	198	180	153	114	89	106	117	142
Interest & dividends	32	41	46	61	59	48	37	38	57	64	75
Freight and shipping	96	97	96	92	70	54	38	44	52	68	80
All other current credits	83	85	88	80	69	59	54	44	43	45	47
Total as above	1,635	1,601	1,748	1,609	1,258	915	738	747	906	1,026	1,298
Net exports of non-monetary gold	30	32	40	37	39	57	70	82	114	119	132
Total Current Credits	1,665	1,633	1,788	1,646	1,297	972	808	829	1,020	1,145	1,430
B. Current Debits with All Countries											
Merchandise imports	973	1,057	1,209	1,272	973	580	398	368	484	526	612
Tourist and travel expenditures	99	100	98	108	92	71	49	44	50	64	75
Interest & dividends	240	257	275	322	348	330	302	264	268	270	311
Freight and shipping	105	109	116	130	103	79	66	66	79	82	97
All other current debits	121	120	122	125	118	86	89	89	71	78	91
Total Current Debits	1,538	1,643	1,820	1,957	1,634	1,146	904	831	952	1,020	1,186
Net balance on Current Account											
Excluding all gold	+ 97	- 42	- 72	- 348	- 376	- 231	- 166	- 84	- 46	+ 6	+ 112
Including non-monetary gold	+127	- 10	- 32	- 311	- 337	- 174	- 96	- 2	+ 68	+125	+ 244
Monetary gold	+ 1	- 7	+ 49	+ 37	- 36	+ 33	+ 3	+ 6	- 4	- 2	-
Including all gold	+128	- 17	+ 17	- 274	- 373	- 141	- 93	+ 4	+ 64	+123	+ 244

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table IV - Estimated Current Account Between Canada and the United Kingdom, 1926-1936

(Millions of Dollars)

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
A. Credits with the United Kingdom											
Merchandise exports (adjusted) (2)	315	271	288	224	174	139	149	188	234	258	342
Gold exports (1)						(1)		(63)	(27)	(16)	(59)
Tourist & Travel expenditures	8	10	9	9	8	8	7	5	7	7	8
Interest and dividends	2	2	2	2	2	1	1	2	2	2	2
Freight and shipping	15	10	11	8	7	9	5	8	11	21	23
All other current credits	12	12	13	13	12	13	14	11	7	7	7
Total Current Credits excluding gold	352	305	323	256	203	170	176	214	261	295	382
B. Current Debits with the United Kingdom											
Merchandise imports (adjusted)	148	171	194	188	147	85	61	80	103	110	120
Tourist & Travel expenditures	21	20	19	20	18	14	14	10	10	12	15
Interest and dividends	97	101	100	113	115	102	91	72	75	76	84
Freight and shipping	8	11	10	12	12	9	11	12	14	21	26
All other current debits	20	21	21	22	17	14	13	14	13	14	15
Total Current Debits	294	324	344	355	309	224	190	188	215	233	260
Net Current Account Balance Excluding Gold	+ 58	- 19	- 21	- 99	- 106	- 54	- 14	+ 26	+ 46	+ 62	+ 122

(1) Exports of gold to the United Kingdom are omitted from total credits with the United Kingdom.

(2) Excluding estimated wheat exports diverted to other overseas countries.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table V - Estimated Current Account Between Canada and the United States, 1926-1936
(Millions of Dollars)

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
A. Current Receipts from the United States											
Merchandise exports (adjusted)	476	489	507	519	397	254	169	177	226	285	369
Net exports of non-monetary gold (1)	30	32	40	37	39	57	70	82	114	119	132
Tourist expenditures	140	148	163	184	167	141	103	81	96	107	129
Interest and dividends	12	16	20	30	30	25	18	17	20	24	31
Freight and shipping	64	69	68	68	52	38	25	28	32	33	41
All other current credits	65	67	69	61	51	41	37	30	33	35	36
Total Current Credits Including All Non-monetary Gold	787	821	867	899	736	556	422	415	521	603	738
B. Current Payments to the United States											
Merchandise imports (adjusted)	652	690	810	875	634	372	246	205	278	299	352
Tourist expenditures	70	72	72	81	67	52	30	30	36	48	54
Interest and dividends	138	151	169	202	225	221	205	188	189	190	222
Freight and shipping	85	84	92	103	80	61	48	45	55	47	53
All other current debits	73	72	73	75	74	55	61	60	43	48	58
Total Current Debits	1,018	1,069	1,216	1,336	1,080	761	590	528	601	632	739
Net Current Account Deficit including all net exports of non-monetary gold	- 231	- 248	- 349	- 437	- 344	- 205	- 168	- 113	- 80	- 29	- 1

(1) All exports of non-monetary gold are included in the account with the United States.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table VI - Current Account Between Canada and Other Countries than the United Kingdom and United States, 1926-1936
(Millions of Dollars)

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
A. Current Credits with Other Countries											
Merchandise exports (1)	481	455	546	435	309	208	177	167	188	189	243
Tourist & travel expenditures	4	5	5	5	5	4	4	3	3	3	5
Interest and dividends	18	23	24	29	27	22	18	19	35	38	42
Freight and shipping	17	18	17	16	11	7	8	8	9	14	16
All other current credits	6	6	6	6	6	5	3	3	3	3	4
Total - Current Credits	526	507	598	491	358	246	210	200	238	247	310
B. Current Debits with Other Countries											
Merchandise imports	173	196	205	209	192	123	91	83	103	117	140
Tourist & travel expenditures	8	8	7	7	7	5	5	4	4	4	6
Interest and dividends	5	5	6	7	8	7	6	4	4	4	5
Freight and shipping	12	14	14	15	11	9	7	9	10	14	18
All other current debits	28	27	28	28	27	17	15	15	15	16	18
Total - Current Debits	226	250	260	266	245	161	124	115	136	155	187
Net Credits on Current Account	+ 300	+ 257	+ 338	+ 225	+ 113	+ 85	+ 86	+ 85	+ 102	+ 92	+ 123

(1) Including estimated wheat sold in European countries.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table VII - Transactions Between Canada and All Countries, 1937-1944

(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944
A. CREDITS - WITH ALL COUNTRIES								
Merchandise exports adjusted	1,041	844	906	1,202	1,732	2,515	3,050	3,583
Net exports of non-monetary gold	145	161	184	203	204	184	142	110
Tourist and travel expenditures	166	149	149	104	111	81	88	111
Interest and dividends	76	66	57	52	60	67	59	71
Freight and shipping	112	95	102	138	185	221	288	316
All other current credits	53	46	59	77	166	308	437	345
Total Current Credits	1,593	1,361	1,457	1,776	2,458	3,376	4,064	4,536
Special Gold Transactions (2)	-	-	2	248	-	23	143	55
Capital Credits	622	458	558	283	566	1,235	677	689
B. DEBITS - WITH ALL COUNTRIES								
Merchandise imports adjusted	776	649	713	1,006	1,264	1,406	1,579	1,398
Tourist and travel expenditures	87	86	81	43	21	26	36	58
Interest and dividends	302	307	306	313	286	270	261	264
Freight and shipping	137	105	119	132	167	228	294	244
All other current debits	111	114	112	133	229	345	688	1,575
Total Current Debits	1,413	1,261	1,331	1,627	1,967	2,275	2,858	3,539
Special Gold Transactions (2)	-	-	2	248	-	23	143	55
Capital Debits	794	570	694	471	1,063	1,343	1,360	746
Billion Dollar Contribution	-	-	-	-	-	1,000	-	-
Mutual Aid	-	-	-	-	-	-	512	936
C. NET BALANCES - WITH ALL COUNTRIES								
Merchandise trade adjusted	+ 265	+ 195	+ 193	+ 196	+ 468	+1,109	+1,471	+2,185
Net exports of non-monetary gold	+ 145	+ 161	+ 184	+ 203	+ 204	+ 184	+ 142	+ 110
Tourist and travel expenditures	+ 79	+ 63	+ 68	+ 61	+ 90	+ 55	+ 52	+ 53
Interest and dividends	- 226	- 241	- 249	- 261	- 226	- 203	- 202	- 193
Freight and shipping	- 25	- 10	- 17	+ 6	+ 18	- 7	- 6	+ 72
All other current transactions	- 58	- 68	- 53	- 56	- 63	- 37	- 251	-1,230
Total Current Account	+ 180	+ 100	+ 126	+ 149	+ 491	+1,101	+1,206	+ 997
Special Gold Transactions (2)	-	-	-	-	-	-	-	-
Capital Accounts	- 172	- 112	- 136	- 188	- 497	- 108	- 683	- 57
Billion Dollar Contribution	-	-	-	-	-	-1,000	-	-
Mutual Aid	-	-	-	-	-	-	- 512	- 936
Balancing Item (1)	- 8	+ 12	+ 10	+ 39	+ 6	+ 7	- 11	- 4
	- 180	- 100	- 126	- 149	- 491	-1,109	-1,206	- 997

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically.

(2) This represents gold or United States dollars received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table VIII - Transactions Between Canada and Empire Countries, 1937-1944

(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944
A. CREDITS - WITH EMPIRE COUNTRIES								
Merchandise exports adjusted	493	442	436	699	1,098	1,541	1,763	1,970
Tourist and travel expenditures	12	10	9	6	3	2	1	2
Interest and dividends	7	5	5	3	5	7	5	9
Freight and shipping	45	43	43	76	119	127	148	169
War Services	-	-	-	20	74	130	128	128
All other current credits	8	8	9	18	22	19	21	29
Total Current Credits	565	508	502	822	1,321	1,826	2,066	2,307
Capital Credits	118	102	97	116	181	884	20	146
B. DEBITS - WITH EMPIRE COUNTRIES								
Merchandise imports adjusted	235	184	177	236	279	226	200	196
Tourist and travel expenditures	18	17	13	3	3	2	2	2
Interest and dividends	87	83	80	76	68	51	52	56
Freight and shipping	47	34	39	36	36	49	47	33
Canadian Overseas expenditures	-	-	-	29	97	191	499	1,085
All other current debits	19	19	17	23	33	38	50	56
Total Current Debits	406	337	326	403	516	557	850	1,428
Special Gold Transactions (2)	-	-	2	248	-	23	143	55
Capital Debits	142	155	180	330	990	1,129	586	144
Billion Dollar Contribution	-	-	-	-	-	1,000	-	-
Mutual Aid	-	-	-	-	-	-	503	834
C. NET BALANCES - WITH EMPIRE COUNTRIES								
Merchandise trade adjusted	+ 258	+ 258	+ 259	+ 463	+ 819	+1,315	+1,563	+1,774
Tourist and travel expenditures	- 6	- 7	- 4	+ 3	-	-	- 1	-
Interest and dividends	- 80	- 78	- 75	- 73	- 63	- 44	- 47	- 47
Freight and shipping	- 2	+ 9	+ 4	+ 40	+ 83	+ 78	+ 101	+ 136
All other current transactions	- 11	- 11	8	- 14	- 34	- 80	- 400	- 984
Total Current Account	+ 159	+ 171	+ 176	+ 419	+ 805	+1,269	+1,216	+ 879
Special Gold Transactions (2)	-	-	- 2	- 248	-	- 23	- 143	- 55
Capital Account	- 24	- 53	- 83	- 214	- 809	- 245	- 566	+ 2
Billion Dollar Contribution	-	-	-	-	-	-1,000	-	-
Mutual Aid	-	-	-	-	-	-	- 503	- 834
Balancing Item (1)	(1)	(1)	(1)	+ 43	+ 4	- 1	- 5	+ 8
				- 419	- 805	-1,269	-1,216	- 879

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically. In the statements of transactions with Empire Countries and with Non-Empire Countries it reflects multilateral settlements in the period before exchange control.

(2) This represents gold and United States dollars received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table IX - Current Transactions Between Canada and the United Kingdom, 1937-1944

(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944
A. CURRENT CREDITS - WITH THE UNITED KINGDOM								
Merchandise exports adjusted	385	337	332	542	914	1,424	1,636	1,796
Tourist and travel expenditures	11	8	7	5	2	2	1	2
Interest and dividends	2	2	2	2	4	5	4	8
Freight and shipping	38	34	34	60	110	114	128	139
All other current credits	8	8	9	27	63	112	120	118
Total Current Credits	444	389	384	636	1,093	1,657	1,889	2,063
B. CURRENT DEBITS - WITH THE UNITED KINGDOM								
Merchandise imports adjusted	148	119	106	133	137	116	100	94
Tourist and Travel expenditures	16	15	11	2	2	2	2	2
Interest and dividends	85	81	78	74	66	50	51	55
Freight and shipping	43	30	36	32	28	41	40	28
All other current debits	17	17	16	52	126	225	547	1,138
Total Current Debits	309	262	247	293	359	434	740	1,317
C. NET CURRENT BALANCES - WITH THE UNITED KINGDOM								
Merchandise trade adjusted	+ 237	+ 218	+ 226	+ 409	+ 777	+1,308	+1,536	+1,702
Tourist and travel expenditures	- 5	- 7	- 4	+ 3	-	-	- 1	-
Interest and dividends	- 83	- 79	- 76	- 72	- 62	- 45	- 47	- 47
Freight and shipping	- 5	+ 4	- 2	+ 28	+ 82	+ 73	+ 88	+ 111
All other current transactions	- 9	- 9	- 7	- 25	- 63	- 113	- 427	-1,020
Total Current Account	+ 135	+ 127	+ 137	+ 343	+ 734	+1,223	+1,149	+ 746

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table X - Current Transactions Between Canada and Other Empire Countries, 1937-1944

(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944
A. CURRENT CREDITS - WITH OTHER EMPIRE COUNTRIES								
Merchandise exports adjusted	108	105	104	157	184	117	127	174
Tourist and travel expenditures	1	2	2	1	1	(1)	(1)	(1)
Interest and dividends	5	3	3	1	1	2	1	1
Freight and shipping	7	9	9	16	9	13	20	30
All other current credits	(1)	(1)	(1)	11	33	37	29	39
Total Current Credits	121	119	118	186	228	169	177	244
B. CURRENT DEBITS - WITH OTHER EMPIRE COUNTRIES								
Merchandise imports adjusted	87	65	71	103	142	110	100	102
Tourist and travel expenditures	2	2	2	1	1	(1)	(1)	(1)
Interest and dividends	2	2	2	2	2	1	1	1
Freight and shipping	4	4	3	4	8	8	7	5
All other current debits	2	2	1	(1)	4	4	2	3
Total Current Debits	97	75	79	110	157	123	110	111
C. NET CURRENT BALANCES - WITH OTHER EMPIRE COUNTRIES								
Merchandise trade adjusted	+ 21	+ 40	+ 33	+ 54	+ 42	+ 7	+ 27	+ 72
Tourist and travel expenditures	- 1	-	-	-	-	-	-	-
Interest and dividends	+ 3	+ 1	+ 1	- 1	- 1	+ 1	-	-
Freight and shipping	+ 3	+ 5	+ 6	+ 12	+ 1	+ 5	+ 13	+ 25
All other current transactions	- 2	- 2	- 1	+ 11	+ 29	+ 33	+ 27	+ 36
Total Current Account	+ 24	+ 44	+ 39	+ 76	+ 71	+ 46	+ 67	+ 133

(1) Less than $500,000

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XI - Transactions Between Canada and Non-Empire Countries, 1937-1944.

(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944
A. CREDITS - WITH NON-EMPIRE COUNTRIES								
Merchandise exports adjusted	548	402	470	503	634	974	1,287	1,613
Net exports of non-monetary gold	145	161	184	203	204	184	142	110
Tourist and travel expenditures	154	139	140	98	108	79	87	109
Interest and dividends	69	61	52	49	55	60	54	62
Freight and shipping	67	52	59	62	66	94	140	147
All other current credits	45	38	50	39	70	159	288	188
Total Current Credits	1,028	853	955	954	1,137	1,550	1,998	2,229
Special Gold Transactions (2)	-	-	2	248	-	23	143	55
Capital Credits	504	356	461	167	385	351	657	543
B. DEBITS - WITH NON-EMPIRE COUNTRIES								
Merchandise imports adjusted	541	465	536	770	985	1,180	1,379	1,202
Tourist and travel expenditures	69	69	68	40	18	24	34	56
Interest and dividends	215	224	226	237	218	219	209	208
Freight and shipping	90	71	80	96	131	179	247	211
All other current debits	92	95	95	81	99	116	139	434
Total Current Debits	1,007	924	1,005	1,224	1,451	1,718	2,008	2,111
Capital Debits	652	415	514	141	73	214	774	602
Mutual Aid	-	-	-	-	-	-	9	102
C. NET BALANCES - WITH NON-EMPIRE COUNTRIES								
Merchandise trade adjusted	+ 7	- 63	- 66	- 267	- 351	- 206	- 92	+ 411
Net exports of non-monetary gold	+ 145	+ 161	+ 184	+ 203	+ 204	+ 184	+ 142	+ 110
Tourist and travel expenditures	+ 85	+ 70	+ 72	+ 58	+ 90	+ 55	+ 53	+ 53
Interest and dividends	- 146	- 163	- 174	- 188	- 163	- 159	- 155	- 146
Freight and shipping	- 23	- 19	- 21	- 34	- 65	- 85	- 107	- 64
All other current transactions	- 47	- 57	- 45	- 42	- 29	+ 43	+ 149	- 246
Total Current Account	+ 21	- 71	- 50	- 270	- 314	- 168	- 10	+ 118
Special Gold Transactions (2)	-	-	+ 2	+ 248	-	+ 23	+ 143	+ 55
Capital Account	- 148	- 59	- 53	+ 26	+ 312	+ 137	- 117	- 59
Mutual Aid	-	-	-	-	-	-	- 9	- 102
Balancing Item (1)	(1)	(1)	(1)	- 4	+ 2	+ 8	- 7	- 12
				+ 270	+ 314	+ 168	+ 10	+ 118

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically. In the statements of transactions with Empire Countries and with Non-Empire Countries it reflects multilateral settlements in the period before exchange control.

(2) This represents gold and United States dollars received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XII - Current Transactions Between Canada and the United States, 1937-1944

(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944
A. CREDITS - WITH THE UNITED STATES								
Merchandise exports adjusted	391	268	344	424	566	911	1,224	1,444
Net exports of non-monetary gold	145	161	184	203	204	184	142	110
Tourist and travel expenditures	149	134	137	98	107	79	87	109
Interest and dividends	31	25	27	29	39	43	34	42
Freight and shipping	45	39	46	49	64	92	137	140
All other current credits	42	36	42	31	65	152	274	176
Total Current Credits	803	663	780	834	1,045	1,461	1,898	2,021
B. DEBITS - WITH THE UNITED STATES								
Merchandise imports adjusted	463	400	472	702	910	1,116	1,311	1,113
Tourist and travel expenditures	65	66	67	40	18	24	34	56
Interest and dividends	211	218	220	233	214	215	205	203
Freight and shipping	68	55	61	78	131	179	247	211
All other current debits	73	73	76	73	90	107	120	421(1)
Total Current Debits	880	812	896	1,126	1,363	1,641	1,917	2,004
C. NET BALANCES - WITH THE UNITED STATES								
Merchandise trade adjusted	- 72	- 132	- 128	- 278	- 344	- 205	- 87	+ 331
Net exports of non-monetary gold	+ 145	+ 161	+ 184	+ 203	+ 204	+ 184	+ 142	+ 110
Tourist and travel expenditures	+ 84	+ 68	+ 70	+ 58	+ 89	+ 55	+ 53	+ 53
Interest and dividends	- 180	- 193	- 193	- 204	- 175	- 172	- 171	- 161
Freight and shipping	- 23	- 16	- 15	- 29	- 67	- 87	- 110	- 71
All other current transactions	- 31	- 37	- 34	- 42	- 25	+ 45	+ 154	- 245
Total Current Account	- 77	- 149	- 116	- 292	- 318	- 180	- 19	+ 17

(1) Includes $280 million special payments to U. S. Treasury.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XIII - Current Transactions Between Canada and Other Foreign Countries, 1937-1944

(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944
A. CREDITS - WITH OTHER FOREIGN COUNTRIES								
Merchandise exports adjusted	157	134	126	79	68	63	63	169
Tourist and travel expenditures	5	5	3	(1)	1	(1)	(1)	(1)
Interest and dividends	38	36	25	20	16	17	20	20
Freight and shipping	22	13	13	13	2	2	3	7
All other current credits	3	2	8	8	5	7	14	12
Total Current Credits	225	190	175	120	92	89	100	208
B. DEBITS - WITH OTHER FOREIGN COUNTRIES								
Merchandise imports adjusted	78	65	64	68	75	64	68	89
Tourist and travel expenditures	4	3	1	(1)	(1)	(1)	(1)	(1)
Interest and dividends	4	6	6	4	4	4	4	5
Freight and shipping	22	16	19	18	(2)	(2)	(2)	(2)
All other current debits	19	22	19	8	9	9	19	13
Total Current Debits	127	112	109	98	88	77	91	107
C. NET BALANCES - WITH OTHER FOREIGN COUNTRIES								
Merchandise trade adjusted	+ 79	+ 69	+ 62	+ 11	- 7	- 1	- 5	+ 80
Tourist and travel expenditures	+ 1	+ 2	+ 2	-	+ 1	-	-	-
Interest and dividends	+ 34	+ 30	+ 19	+ 16	+ 12	+ 13	+ 16	+ 15
Freight and shipping	-	- 3	- 6	- 5	+ 2	+ 2	+ 3	+ 7
All other current transactions	- 16	- 20	- 11	-	- 4	- 2	- 5	- 1
Total Current Account	+ 98	+ 78	+ 66	+ 22	+ 4	+ 12	+ 9	+ 101

(1) Less than $500,000

(2) Included in amount shown for United States

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XIV - Preliminary Statement, 1944

(Millions of Canadian Dollars)

	Credits	Debits	Net
A. Canada and All Countries			
Current Account			
Merchandise trade adjusted	3,583	1,398	+ 2,185
Net exports of non-monetary gold	110	-	+ 110
Tourist and travel expenditures	111	58	+ 53
Interest and dividends	71	264	- 193
Freight and shipping	316	244	+ 72
All other current transactions	345	1,575	- 1,230
Totals - Current Account	4,536	3,539	+ 997
Special U. S. Dollar transactions (2)	55	55	-
Capital Movements	689	746	- 57
Mutual Aid	-	936	- 936
Balancing Item (1)	-	4	- 4
	5,280	5,280	
B. Canada and Empire Countries			
Current Account			
Merchandise trade adjusted	1,970	196	+ 1,774
Tourist and travel expenditures	2	2	-
Interest and dividends	9	56	- 47
Freight and shipping	169	33	+ 136
War Services	128	1,085	- 957
Other current transactions	29	56	- 27
Totals - Current Account -			
United Kingdom	2,063	1,317	+ 746
Other Empire Countries	244	111	+ 133
All Empire Countries	2,307	1,428	+ 879
Special U. S. Dollar transactions (2)	-	55	- 55
Capital Movements	146	144	+ 2
Mutual Aid	-	834	- 834
Balancing Item (1)	8	-	+ 8
	2,461	2,461	

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically.

(2) This represents United States dollars received from the United Kingdom in part settlement of her deficiency with Canada.

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XIV - Preliminary Statement, 1944 - Concluded

(Millions of Canadian Dollars)

	Credits	Debits	Net
C. Canada and Non-Empire Countries			
Current Account			
Merchandise trade adjusted	1,613	1,202	+ 411
Net exports of non-monetary gold	110	-	+ 110
Tourist and travel expenditures	109	56	+ 53
Interest and dividends	62	208	- 146
Freight and shipping	147	211	- 64
All other current transactions	188	434(3)	- 246
Totals - Current Accounts:-			
United States	2,021	2,004	+ 17
Other Foreign Countries	208	107	+ 101
All Non-Empire Countries	2,229	2,111	+ 118
Special U. S. Dollar transactions(2)	55	-	+ 55
Capital Movements	543	602	- 59
Mutual Aid	-	102	- 102
Balancing Item(1)	-	12	- 12
	2,827	2,827	

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically.

(2) This represents United States dollars received from the United Kingdom in part settlement of her deficiency with Canada.

(3) Including $280 million special payments to United States Treasury.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XV - Capital Transactions Between Canada and Empire Countries, 1939-1944

(Millions of Canadian Dollars)

	1939	1940	1941	1942	1943	1944
Capital Credits						
Decrease in £ balances	-	-	-	818	-	4
Other credits	97	116	181	66	20	142
Total credits	97	116	181	884	20	146
Capital Debits						
Private transactions	105	111	74	59	71	83
Official transactions -						
Repatriation of securities	75	137	188	296	4	2
Repatriation of production						
Assets - Fixed capital	-	-	-	-	205	2
Working capital	-	-	-	-	190	-
Increase in £ balances	-	82	728	-	-	-
Special loan to United Kingdom	-	-	-	700	-	-
Special payments	-	-	-	74	116	57
Total debits as above	180	330	990	1,129	586	144
Special Gold and United States Dollar Transactions	2	248	-	23	143	55
Billion Dollar Contribution	-	-	-	1,000	-	-
Mutual Aid	-	-	-	-	503	834

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XVI - Capital Transactions Between Canada and Non-Empire Countries

(Millions of Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944
New issues of Canadian securities	86	38	155	-	(2)	(2)	146	92
Retirements of Canadian securities	140	79	131	41	31(2)	25(2)	308	166
Net new issues (+) or Net retirements (-)	- 54	-41	+ 24	- 41	- 31	- 25	- 162	- 74
Net Sales (+) or Net Purchases (-) of Outstanding Securities								
Canadian securities	- 18	+48	+ 69	+ 15	+ 46	+ 132	+ 254	+183
United States and Foreign	- 7	- 7	+ 18	+ 18	+ 28	+ 24	+ 44	+ 42
Other Capital Movements and Adjusting Entries								
Credits	418(1)	277(1)	219(1)	134	311	195	213	226
Debits	487(1)	336(1)	383(1)	100	42	189	466	436
Gross Credits	504	356	461	167	385	351	657	543
Gross Debits	652	415	514	141	73	214	774	602

(1) Including offsetting security transactions amounting to 400 in 1937, 276 in 1938 and 203 in 1939. In the period of exchange control such transactions are omitted as purchases represent, in the main, switches of securities.

(2) Excluding refunding issues.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XVII - Merchandise Trade Between Canada and Other Countries, 1933 - 1944.

(Exclusive of gold and adjusted for balance of payments purposes)

(Millions of Canadian Dollars)

		Empire			Non-Empire		
Credits from Exports	All Countries	Total	United Kingdom	Other Countries	Total	United States	Other Countries
1933	532	232	188	44	300	177	123
1934	648	299	234	65	349	226	123
1935	732	332	258	74	400	285	115
1936	954	427	342	85	527	369	158
1937	1,041	493	385	108	548	391	157
1938	844	442	337	105	402	268	134
1939	906	436	332	104	470	344	126
1940	1,202	699	542	157	503	424	79
1941	1,732	1,098	914	184	634	566	68
1942	2,515	1,541	1,424	117	974	911	63
1943	3,050	1,763	1,636	127	1,287	1,224	63
1944	3,583	1,970	1,796	174	1,613	1,444	169
Debits for Imports							
1933	368	114	80	34	254	205	49
1934	484	146	103	43	338	278	60
1935	526	166	110	56	360	299	61
1936	612	185	120	65	427	352	75
1937	776	235	148	87	541	463	78
1938	649	184	119	65	465	400	65
1939	713	177	106	71	536	472	64
1940	1,006	236	133	103	770	702	68
1941	1,264	279	137	142	985	910	75
1942	1,406	226	116	110	1,180	1,116	64
1943	1,579	200	100	100	1,379	1,311	68
1944	1,398	196	94	102	1,202	1,113	89
Net Credits (+) or Debits (-)							
1933	+ 164	+ 118	+ 108	+ 10	+ 46	- 28	+ 74
1934	+ 164	+ 153	+ 131	+ 22	+ 11	- 52	+ 63
1935	+ 206	+ 166	+ 148	+ 18	+ 40	- 14	+ 54
1936	+ 342	+ 242	+ 222	+ 20	+ 100	+ 17	+ 83
1937	+ 265	+ 258	+ 237	+ 21	+ 7	- 72	+ 79
1938	+ 195	+ 258	+ 218	+ 40	- 63	- 132	+ 69
1939	+ 193	+ 259	+ 226	+ 33	- 66	- 128	+ 62
1940	+ 196	+ 463	+ 409	+ 54	- 267	- 278	+ 11
1941	+ 468	+ 819	+ 777	+ 42	- 351	- 344	- 7
1942	+1,109	+1,315	+1,308	+ 7	- 206	- 205	- 1
1943	+1,471	+1,563	+1,536	+ 27	- 92	- 87	- 5
1944	+2,185	+1,774	+1,702	+ 72	+ 411	+ 331	+ 80

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XVIII - Revised Estimates of Tourist Expenditures Between Canada and Other Countries, 1937-1944

(Millions of Canadian Dollars)

		Empire			Non-Empire		
	All Countries	Total	United Kingdom	Other[1] Countries	Total	United States	Other Countries
Credits - Expenditures of Foreign Tourists in Canada							
1937	166	12	11	1	154	149	5
1938	149	10	8	2	139	134	5
1939	149	9	7	2	140	137	3
1940	104	6	5	1	98	98	(2)
1941	111	3	2	1	108	107	1
1942	81	2	2	(2)	79	79	(2)
1943	88	1	1	(2)	87	87	(2)
1944	111	2	2	(2)	109	109	(2)
Debits - Expenditures of Canadian Tourists Abroad							
1937	87	18	16	2	69	65	4
1938	86	17	15	2	69	66	3
1939	81	13	11	2	68	67	1
1940	43	3	2	1	40	40	(2)
1941	21	3	2	1	18	18	(2)
1942	26	2	2	(2)	24	24	(2)
1943	36	2	2	(2)	34	34	(2)
1944	58	2	2	(2)	56	56	(2)
Net Credits (+) or Net Debits (-)							
1937	+ 79	- 6	- 5	- 1	+ 85	+ 84	+ 1
1938	+ 63	- 7	- 7	-	+ 70	+ 68	+ 2
1939	+ 68	- 4	- 4	-	+ 72	+ 70	+ 2
1940	+ 61	+ 3	+ 3	-	+ 58	+ 58	-
1941	+ 90	-	-	-	+ 90	+ 89	+ 1
1942	+ 55	-	-	-	+ 55	+ 55	-
1943	+ 52	- 1	- 1	-	+ 53	+ 53	-
1944	+ 53	-	-	-	+ 53	+ 53	-

(1) Excluding Newfoundland

(2) Less than $500,000.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XIX - Estimated Distribution of Interest and Dividend Payments and Receipts Between Canada and Other Countries, 1937-1944

(Millions of Canadian Dollars)

		Empire			Non-Empire		
	All Countries	Total	United Kingdom	Other Countries	Total	United States	Other Countries
Credits - Receipts of Interest & Dividends from Investments abroad							
1937	76	7	2	5	69	31	38
1938	66	5	2	3	61	25	36
1939	57	5	2	3	52	27	25
1940	52	3	2	1	49	29	20
1941	60	5	4	1	55	39	16
1942	67	7	5	2	60	43	17
1943	59	5	4	1	54	34	20
1944	71	9	8	1	62	42	20
Debits - Payments of Interest and Dividends to Non-Residents							
1937	302	87	85	2	215	211	4
1938	307	83	81	2	224	218	6
1939	306	80	78	2	226	220	6
1940	313	76	74	2	237	233	4
1941	286	68	66	2	218	214	4
1942	270	51	50	1	219	215	4
1943	261	52	51	1	209	205	4
1944	264	56	55	1	208	203	5
Net Credits (+) or Debits (-)							
1937	- 226	- 80	- 83	+ 3	- 146	- 180	+ 34
1938	- 241	- 78	- 79	+ 1	- 163	- 193	+ 30
1939	- 249	- 75	- 76	+ 1	- 174	- 193	+ 19
1940	- 261	- 73	- 72	- 1	- 188	- 204	+ 16
1941	- 226	- 63	- 62	- 1	- 163	- 175	+ 12
1942	- 203	- 44	- 45	+ 1	- 159	- 172	+ 13
1943	- 202	- 47	- 47	-	- 155	- 171	+ 16
1944	- 193	- 47	- 47	-	- 146	- 161	+ 15

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XX

BRITISH AND FOREIGN CAPITAL INVESTED IN CANADA

As at December 31, Representative Years, 1926-1939

Classification by Types of Investment

A. Total Non-Resident Investment in Canada
(Millions of Dollars)

Types of Investment	1926	1930	1933	1939
Government Securities				
Dominion	638.0	682.0	751.9	824.0
Provincial	421.6	592.3	571.7	536.0
Municipal	374.1	431.5	394.4	312.0
Total	1,433.7	1,705.8	1,718.0	1,672.0
Public Utilities				
Railways	1,938.4	2,244.3	2,244.7	1,905.6
Other	394.5	633.4	625.4	588.0
Total	2,332.9	2,877.7	2,870.1	2,493.6
Manufacturing	1,198.3	1,573.0	1,421.6	1,445.2
Mining and Smelting	219.1	334.1	338.5	329.1
Merchandising	149.8	202.9	191.5	189.3
Financial Institutions	343.6	542.9	479.6	472.7
Other Enterprises	65.2	82.4	75.2	69.0
Miscellaneous Assets	260.0	295.0	270.0	255.0
Total Investment	6,002.6	7,613.8	7,364.5	6,925.9

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XXI

BRITISH AND FOREIGN CAPITAL INVESTED IN CANADA

As at December 31, Representative Years, 1926-1939

Classification by Types of Investment

B. Investments held in the United Kingdom
(Millions of Dollars)

Types of Investment	1926	1930	1933	1939
Government Securities				
Dominion	250.1	234.5	291.4	225.0
Provincial	72.6	69.3	74.2	58.0
Municipal	187.0	182.1	143.9	125.0
Total	509.7	485.9	509.5	408.0
Public Utilities				
Railways	1,371.0	1,351.7	1,353.8	1,250.3
Other	96.6	99.7	87.7	89.3
Total	1,467.6	1,451.4	1,441.5	1,339.6
Manufacturing	234.4	274.7	236.3	257.3
Mining and Smelting	50.9	73.8	72.1	61.4
Merchandising	49.2	61.6	56.5	54.9
Financial Institutions	175.5	242.7	213.0	220.9
Other Enterprises	4.0	5.2	3.9	3.8
Miscellaneous Assets	145.0	171.0	150.0	120.0
Total Investment	2,636.3	2,766.3	2,682.8	2,465.9

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XXII

BRITISH AND FOREIGN CAPITAL INVESTED IN CANADA

As at December 31, Representative Years, 1926-1939

Classification by Types of Investment

C. Investments held in the United States
(Millions of Dollars)

Types of Investment	1926	1930	1933	1939
Government Securities				
Dominion	381.9	440.5	450.5	587.0
Provincial	342.0	517.0	492.5	473.0
Municipal	185.1	247.4	248.5	181.0
Total	909.0	1,204.9	1,191.5	1,241.0
Public Utilities				
Railways	510.4	832.6	830.9	588.3
Other	289.9	521.7	524.7	470.7
Total	800.3	1,354.3	1,355.6	1,059.0
Manufacturing	952.9	1,286.3	1,172.3	1,159.9
Mining and Smelting	165.2	255.3	260.4	250.7
Merchandising	98.6	137.3	131.0	129.4
Financial Institutions	125.1	251.2	220.6	200.8
Other Enterprises	60.2	76.2	70.3	64.2
Miscellaneous Assets	85.0	94.0	90.0	85.0
Total Investment	3,196.3	4,659.5	4,491.7	4,190.0

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XXIII

BRITISH AND FOREIGN CAPITAL INVESTED IN CANADA

As at December 31, Representative Years, 1926-1939

Classification by Types of Investment

D. Investments held in All Other Countries
(Millions of Dollars)

Types of Investment	1926	1930	1933	1939
Government Securities				
Dominion	6.0	7.0	10.0	12.0
Provincial	7.0	6.0	5.0	5.0
Municipal	2.0	2.0	2.0	6.0
Total	15.0	15.0	17.0	23.0
Public Utilities				
Railways	57.0	60.0	60.0	67.0
Other	8.0	12.0	13.0	28.0
Total	65.0	72.0	73.0	95.0
Manufacturing	11.0	12.0	13.0	28.0
Mining and Smelting	3.0	5.0	6.0	17.0
Merchandising	2.0	4.0	4.0	5.0
Financial Institutions	43.0	49.0	46.0	51.0
Other Enterprises	1.0	1.0	1.0	1.0
Miscellaneous Assets	30.0	30.0	30.0	50.0
Total Investment	170.0	188.0	190.0	270.0

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XXIV

Estimated British and Foreign Capital Invested in Canada, by Types of Investment, December 31, 1939

(Millions of Dollars)

Type of Investment	Estimated Distribution of Ownership			Total Investments Owned Outside Canada
	British(1)	United States(2)	Other Countries	
Government Securities				
Dominion	255.0	587.0	12.0	824.0
Provincial	58.0	473.0	5.0	536.0
Municipal	125.0	181.0	6.0	312.0
Total	408.0	1,241.0	23.0	1,672.0
Public Utilities				
Railways	1,250.3	588.3	67.0	1,905.6
Other	89.3	470.7	28.0	588.0
Total	1,339.6	1,059.0	95.0	2,493.6
Manufacturing	257.3	1,159.9	28.0	1,445.2
Mining and Smelting	61.4	250.7	17.0	329.1
Merchandising	54.9	129.4	5.0	189.3
Financial Institutions	220.9	200.8	51.0	472.7
Other Enterprises	3.8	64.2	1.0	69.0
Miscellaneous Assets	120.0	85.0	50.0	255.0
Total Investment	2,465.9	4,190.0	270.0	6,925.9

(1) - (2) Includes some investments held by nominees in the United Kingdom and the United States for residents of other countries.

N. B. - Common and preference stocks are shown at book values as shown in the balance sheets of the issuing companies, bonds and debentures are valued at par, liabilities in foreign currencies being converted into Canadian dollars at the par of exchange.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XXV

BRITISH AND FOREIGN CAPITAL INVESTED IN CANADA, END OF 1939

Classification by Countries of Origin and by Types of Security
(Millions of Dollars)

Types of Security	Distribution of Ownership			
	United States(1)	United Kingdom(2)	Other Foreign Countries	Total Non-resident Investment
Bonds and Debentures				
Dominion	587	225	12	824
Provincial	473	58	5	536
Municipal	181	125	6	312
Steam Railways	434	781	29	1,244
Other corporations - controlled in Canada	173	80	12	265
Other corporations - controlled outside of Canada	267	46	14	327
Total	2,115	1,315	78	3,508
Capital Stock of Canadian Companies				
Companies controlled in Canada	354	660	91	1,105
Companies controlled in the United States	1,310	55	13	1,378
Companies controlled in the United Kingdom	13	194	2	209
Companies controlled in Other Foreign Countries	(3)	(3)	19	19
Total	1,677	909	125	2,711
Other Corporation Assets				
Companies controlled in Canada	8	1	-	9
Companies controlled in the United States	304	1	-	305
Companies controlled in the United Kingdom	1	120	-	121
Companies controlled in Other Foreign Countries	-	-	17	17
Total	313	122	17	452
Miscellaneous Investments				
Real estate, mortgages, assets administered for non-residents, etc.	85	120	50	255
Total	4,190	2,466	270	6,926

(1)-(2) Includes some investments held by nominees in the United Kingdom and the United States for residents of other countries.
(3) Less than $500,000.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XXVI - Estimated Canadian Investments Abroad, December 31, 1939

(Excluding investments of insurance companies, banks and government credits)

(In Millions of Canadian Dollars)

Location of Investment	Direct Investments	Portfolio Investments			Total Investment
		Stocks	Bonds	Total	
United States	397	380	121	501	898
United Kingdom	31	22	21	43	74
Other Empire Countries	54	7	15	22	76
Other Foreign Countries	139	102	51	153	292
Total	621	511	208	719	1,340

N.B. Holdings of stocks are at book values as shown in the books of issuing companies; and holdings of bonds are shown at par values. Foreign currencies were converted into Canadian dollars at current market rates.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1945

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DEPARTMENT OF TRADE AND COMMERCE
DOMINION BUREAU OF STATISTICS - CANADA
INTERNATIONAL PAYMENTS BRANCH

Dominion Statistician: Herbert Marshall
Chief, International Payments Branch: C. D. Blyth

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Canada's external economic relations are revealed in outline by statements of the Canadian balance of international payments. The statements present, in a statistical form, a summary of the commercial and financial transactions occurring between Canada and other countries. They furnish, therefore, an overall view of the external relations of the Canadian economy just as national income studies provide outlines of its whole structure. In an economy such as Canada's where external sources of income and demand furnish an important dynamic element to activity within the country, the balance of payments focuses attention upon the impact of external demand upon the Canadian economy, the expenditure of income outside of Canada, and the resulting financial and exchange aspects. During the war transactions on external account constituted an even larger proportion of the national income than formerly. In the latter years of the war and in 1945, gross credits on current account amounted to almost one-half of the national income compared with approximately one-third in the period before the war.

GENERAL STRUCTURE OF THE BALANCE OF PAYMENTS

The Canadian balance of payments before the war possessed quite definite outlines and characteristics. For some years net receipts from the excess of merchandise exports over import trade with all countries, newly mined gold, and travel expenditures exceeded the net external disbursements on interest and dividends account and for freight and other services. The growing current account credit balance with all countries in years immediately preceding the war was dependent, however, to a considerable extent upon expanding gold production. The more significant annual variations in the gross volume of current international transactions and in the current account balances arise usually from fluctuations in merchandise trade. Demand for Canadian exports varies widely from year to year, and Canadian demand for imports is closely related to fluctuations in the national income in Canada. The large element of interest charges in the total payments on account of interest and dividends makes for some rigidity in payments on income account, and possible fluctuations in the net balance from the tourist trade are moderated considerably by the substantial volume of Canadian travel expenditures outside of Canada, which usually fluctuate in the same direction as travel expenditures in Canada. While these general outlines were retained during the war, there was a great expansion in the net balance of credits on current account as well as in the volume of current transactions. Most of this occurred in the movements of commodities and in the growth of other war expenditures. There was a falling off in credits from non-monetary gold and from the tourist trade and also a decline in net payments of interest and dividends.

The geographical distribution of transactions has displayed very pronounced characteristics and has shown a concentration of dealings with the United Kingdom and the United States with credit balances on current account characterizing the balance of payments between Canada and the United Kingdom for a number of years preceding the war, and chronic debit balances being customary in the account with the United States. The main sources of the credit balance with the United Kingdom was the large income which Canada has had from exports of merchandise to the United Kingdom. In the years immediately before the war this was customarily much greater than the total of current payments made by Canada to the United Kingdom for merchandise imports, shipping and other commercial and financing services and payments of interest and dividends on Canadian investments owned in the United Kingdom. This sterling income was, however, freely convertible before the war into United States dollars or other currencies for which Canadian demand exceeded the Canadian supply. Because of this existence of free exchange markets, there was no problem of settling the credit balance with the United Kingdom such as has developed during the war. The Canadian need for external income to meet payments in the United States and certain other countries where Canada usually has debit balances arises chiefly from the excess of purchases of merchandise in the United States over Canadian exports to that country combined with the large Canadian payments of interest and dividends to American investors, and the payments for transportation, travel and other services. While there is, in good years, a substantial income from Canadian exports to the United States and from United States tourist expenditures in Canada, this along with sales of newly mined gold was not sufficient in any year before the war to meet the large payments for goods and services purchased in the United States. This bilateral disequilibrium in Canada's accounts with the United Kingdom and the United States increased greatly during the war, being influenced mainly by the dominant movements of commodities created by wartime demands.

Canada's special interest in a system of multilateral settlements is apparent from the structure of the Canadian balance of payments. Because of the existence before the war of free exchange markets, which provided channels of international settlement for the nations of the British Commonwealth and other overseas countries with the United States, it was possible for there to be a considerable amount of disequilibrium and "unbalance" in Canada's current accounts with the United Kingdom and the United States without any special problems of settling these balances arising. Triangular settlements such as those arising from the unbalanced state of the Canadian accounts with the United Kingdom and the United States were an integral part of the network of international commerce which had grown up over an extended period. The system of multilateral settlements made it possible to settle balances like those arising from Canada's dealings with its principal trading partners. But the war interrupted the operation of the system of multilateral settlements by creating conditions under which sterling was no longer freely convertible into United States dollars. In addition, the current accounts of the belligerent countries became distorted by wartime demands which produced greatly augmented current balances for which new methods of settlement had to be devised. In the case of Canada, the new conditions produced problems with respect to the balances of payments with both the sterling area and the non-sterling area and the situation made exchange control necessary. Financial problems also developed arising out of the problem of the British scarcity of Canadian dollars to pay for munitions, food and other commodities which were so urgently needed for the prosecution of the war. Other exchange and financial problems arose from the Canadian shortage of United States dollars to pay for the capital equipment, materials and components required for war production. These currency and financial problems arising out of the wartime developments are discussed in later sections dealing with the balance of payments during the war, but are also briefly presented in the following paragraph.

The nature of these problems makes it now necessary to divide the Canadian balance of payments into two separate sections, one showing transactions with the sterling area, and the other showing transactions with the United States and other countries with convertibility exchange. Because of the absence of the free convertibility of sterling into United States dollars, the disequilibrium in these two separate accounts between Canada and other countries has had to be met by various special means. The principal solutions of the wide disequilibrium in the account with the United Kingdom and the sterling area have been of a financial character. Arrangements were made between the governments concerned for increasing the supply of Canadian dollars available to the sterling area, and the direction of these into official channels. In the early years of the war, these methods were mainly of a capital type, involving repatriations and the accumulation of sterling, whereas later in the war when the disequilibrium widened to its peak, the Billion Dollar Contribution and Mutual Aid to the United Kingdom were the chief methods of financing the British shortage of Canadian dollars. In the balance of payments with the United States and the United States dollar area the initial adjustments to meet the Canadian shortage of dollars were of an administrative character. The introduction of exchange control and the control of exports of capital from Canada provided a means of conserving Canada's limited supply of United States dollars for the more essential purposes of the war. Similarly government restrictions were introduced in 1940 limiting Canadian expenditures in the United States for unessential travel and civilian luxury commodities. As the disequilibrium widened in Canada's current account with the United States, other measures directed towards expanding Canada's receipts of United States dollars were developed. The agreements entered into at Hyde Park in the spring of 1941 led to large United States purchases of munitions, military equipment, ships and raw materials in Canada. These expenditures developed rapidly after the United States entry into the war. Later during the war there were exceptionally large Canadian current receipts from sales of grain to the United States and United States government expenditures on defence in Canada. Another major source of United States cash arose from capital inflows from the United States to Canada. Throughout the war there continued to be an appreciable liquidation of Canadian holdings of United States securities and in 1942 there first appeared large inflows of capital for the purchase by American investors of Canadian securities, particularly bonds and debentures. These capital inflows continued to be unusually heavy throughout the remainder of the war and contributed large amounts to the supply of United States exchange, although Canada's external foreign liabilities increased commensurably. There also were special receipts of gold and United States dollars in partial settlement of the British deficiency in Canada.

DEVELOPMENTS IN 1945

While 1945 was a year of transition, the balance of payments for the year as a whole retained some of the general outlines characteristic of the later war years. The high level of economic activity had the effect of producing a record total of credits in the current account, but smaller external government expenditures on war account reduced current debits. As a result, the balance of credits on current account rose to $1,719 million, the highest level for any year in Canada's history. But, as the economic background following the end of the war was much different from that at the beginning of the year, some of the important changes occurring during the year are not apparent from annual summaries of the balance of payments. Heavy international transactions in the earlier part of the year while the war was continuing were instrumental in producing large annual totals. The volume of international transactions was at a considerably lower level by the end of the year than during the early part of the year, although it was still very high compared

even with earlier wartime years. Most of the decline accompanying the end of the war occurred in transactions with the sterling area, transactions with the United States being relatively stable during the year.

The increase in total current account credits in 1945 occurred in exports to overseas countries other than the United Kingdom. Exports to both the United States and the United Kingdom were less in 1945 than in 1944, which was the peak year for both countries. Notable expansions occurred in exports to other Empire countries and to foreign countries overseas. The expansion in exports on account of these foreign countries increased sharply to a new record level as the result of shipments under export credits, UNRRA and military relief. It should be noted that while shipments to many of these countries had also been heavy in 1944, the exports were mainly on British account.

TRANSACTIONS WITH THE STERLING AREA 1945

The current account deficit of the sterling area in Canada in 1945 of $1,220 million compares with $879 million in 1944, $1,216 million in 1943 and $1,269 million in 1942. Most of the change in 1945 originated in the sharp decline in Canadian overseas expenditures in the sterling area as total credits were slightly lower than in 1944. While the current balance with the sterling area was comparable in size with the balance in the two earlier years, 1942 and 1943, the totals of both credits and debits were considerably higher in 1945.

Although total exports to the United Kingdom were lower than the peak level in 1944, exports of food expanded to a new record and exports of lumber and wood products and miscellaneous commodities remained close to the levels of the previous year. Expenditures on account of munitions, including Mutual Aid, declined sharply after the first quarter of the year following the end of the European war and exports of non-ferrous metals were lower throughout the year as British stocks and other sources of supply were used. Following the end of the war, there was a considerable reduction in British expenditures on war services in Canada, declines occurring in expenditures for most purposes. The main group of sterling area expenditures to increase was exports to other Empire countries than the United Kingdom. Unusually large exports on Indian account were an important factor in this increase. There was also a significant increase in British expenditures on freight and shipping account, mainly reflecting larger earnings by the growing fleet of Canadian-owned merchant vessels.

The British supply of Canadian dollars from the more normal sources such as exports of merchandise to Canada and shipping services, and receipts of income on investments in Canada remained about the same in 1945 as in 1944. Canadian imports from the United Kingdom, after deducting aircraft and other military equipment returned by the Canadian services and imports on British account, were at about the same level in both 1945 and 1944. Imports from other sterling area countries were higher in 1945 than in 1944 while payments for freight and other services and interest and dividends to the United Kingdom were somewhat less in the aggregate. There were notable gains in imports from British South Africa, British West Africa, Trinidad and Australia, while imports from Jamaica and the Barbados were considerably lower.

The largest part of the sterling area current supply of Canadian dollars was provided by the payments from the Canadian government to the United Kingdom for the expenses of the Canadian forces overseas. These amounted to $696 million compared with $1,085 million in 1944, the decline in expenditures accompanying the

end of the war, expenditures in the first quarter of the year being about $335 million and dropping down to $77 million in the fourth quarter. In the settlement of war claims by Canada and the United Kingdom in March, 1946 there was a settlement of all outstanding amounts owing between the two countries on war accounts with the result that arrears and other unpaid accounts were cancelled.

Mutual Aid was again the principal means of financing the current account deficiency of the sterling area in 1945. The amount of Mutual Aid to sterling area countries was $838 million. Of this $777 million was for the United Kingdom and the remainder was distributed between Australia, India, New Zealand and the British West Indies. In addition, following the termination of Mutual Aid, there were interim advances to the United Kingdom in order to maintain the export of food amounting to about $164 million. There were also advances to India to cover the purchase of locomotives and also some advances to Australia. Goods provided under Mutual Aid or financed through interim advances have been included with other exports in the balance of payments statements and consequently are reflected in the current account balances shown. Their inclusion among current credits is offset by debits of similar size entered in the special "Mutual Aid" item representing expenditures by the Canadian Mutual Aid Board and by the item of capital account covering "Interim Advances". The interim advances to the United Kingdom and India were included in the settlement of outstanding war claims between the United Kingdom and Canada in March, 1945. Special receipts of U. S. dollars from the United Kingdom contributed $35 million to the financing of the current deficit in 1945, this being part of an adjustment in connection with the United States dollar cost to Canada of Mutual Aid production for the United Kingdom. There was also some financing from sterling area sources arising from a decline in British official balances in Canada. There were large repayments on the $700 million loan totalling $64 million during the year. Canadian private repatriations of securities held in the sterling area totalled about $75 million, an amount which was considerably higher than private repatriations in earlier years during the war. This amount was divided fairly evenly between redemptions and repurchases of outstanding issues.

TRANSACTIONS WITH THE UNITED STATES, 1945

In the balance of payments with the United States there was again a small surplus on current account due to the continuation of some of the abnormal sources of large receipts which had been prominent also in 1944. The current surplus of $28 million compares with $25 million in 1944, the only other year in which this unusual development has occurred. There were sharp declines in two of the abnormal sources of United States expenditures in Canada, receipts from the sale of munitions and from the sale of grain. But, there were smaller expenditures by the Dominion government in the United States in 1945 than in 1944 when large special payments to the United States Treasury amounting to $280 million on current account were made. Receipts from the sale of munitions were in the neighbourhood of $200 million in 1945 compared with considerably more than $300 million in 1944. Receipts from the sale of grain to the United States declined even more sharply, being approximately $100 million in 1945 compared with about $300 million in 1944. Exports of commodities to the United States other than munitions and grain were slightly higher in the aggregate than in 1944, and more than double the level of receipts from all exports to the United States in 1939, higher prices as well as larger volume contributing to some of the increase. United States government expenditures on defence in Canada were much smaller than in the previous year when they had contributed a substantial amount to current receipts. Net exports of non-monetary gold showed a further decline in 1945 only amounting to $96 million, production being reduced because of manpower shortages.

The most outstanding gain in other receipts was from the expenditures of American travellers in Canada. These increased very sharply from $117 million in 1944 to $163 million in 1945. There were sharp increases in travel following the end of the war in August and the tourist season continued later into the year than normally. The level of expenditures reached was considerably more than during the immediate prewar years and was only exceeded by the peak levels of 1929 and 1930. The balance of receipts on travel account, however, increased only moderately since there was also a sharp increase in expenditures of Canadian travellers in the United States. The latter expenditures increased from $57 million in 1944 to $83 million, an amount which was the highest on record. In the earlier year there were still limitations upon expenditures by Canadians for pleasure travel involving U. S. dollars although these had been modified during 1944. In May, 1945 there were further relaxations in restrictions upon pleasure travel, Canadian residents being permitted to obtain U. S. dollars for reasonable expenditures on travel for any purpose in the United States and other dollar countries.

Canadian payments to the United States in 1945 for merchandise were approximately the same as in 1944, although imports of merchandise from the United States underwent many changes during the year. While gross imports declined appreciably, a large part of this decline occurred in imports of goods which are not purchased by Canada. Imports of lend-lease goods on United Kingdom account and U.S. Government free issues of aircraft engines and equipment imported in connection with aircraft being constructed for the United States declined sharply. As there were larger payments for imports on Government account in 1945, imports through other channels were somewhat less than in 1944. The reductions which did occur in Canadian purchases were principally in the groups of iron and steel products and non-ferrous metal products and coal. The sharp falling off in imports of these articles required for war production was partly offset by larger imports of primary iron and steel and other metal products for civilian purposes. Imports of other groups of commodities like chemicals which had been swollen by wartime demands were changed in composition but were maintained by new civilian demands far exceeding the prewar levels. Imports of consumer goods, mainly foods and textiles continued at the abnormally high levels of recent years. Purchases of food were up, a mixture of increased quantity and higher prices; and imports of textiles were maintained at about the same level as in the previous year, the United States continuing to be the main source of imported cotton textiles. Freight and transportation costs originating mainly from the movement of imports to Canada continued to decline, but still totalled $188 million. Among the factors influencing the decline were smaller imports of coal, lower costs of ocean transportation and less use of uneconomic routes. Payments of interest and dividends to investors in the United States declined relatively moderately in the aggregate in 1945. Total dividends paid by Canadian companies to residents of the United States were considerably lower than in 1944, mainly because of reduced distributions by Canadian subsidiaries to parent companies in the United States, while interest payable on Canadian bonds and debentures held there increased during the year, as a result of the large American purchases of Canadian bonds in recent years.

TRANSACTIONS WITH OTHER FOREIGN COUNTRIES 1945

A very sharp increase which occurred in exports to other foreign countries mainly resulted from the liberation of Europe and the heavy shipments in the latter part of the year to the Continent financed by Mutual Aid, export credits, UNRRA, military relief, and cash received from European governments. Total exports on the

account of other foreign countries amounted to $567 million compared with $173 million in 1944 and $134 million in 1938.

Exports to this group of countries directly financed by Dominion government expenditures totalled about $308 million. Mutual Aid to China, France and Russia contributed $102 million of this, export credits $53 million, interim advances to countries arranging for credits $52 million, military relief $67 million and the Canadian contribution to UNRRA of $34 million. There were also exports purchased by UNRRA with free funds and substantial cash purchases by European governments. Commercial exports to other countries producing convertible exchange increased substantially in 1945, amounting to approximately $129 million compared with about $58 million in 1944. This private commercial trade was with the Latin-American countries and some European countries and United States dependencies. There were appreciable gains in exports to practically every country included in this group. Imports from other foreign countries increased from about $89 million in 1944 to $110 million in 1945. Increased imports were scattered among such countries as Venezuela, Switzerland, Honduras, Spain, Portugal, the USSR, Ecuador and Cuba. There were some declines in imports from various other South and Central American countries and imports from European countries formerly occupied by the enemy were of negligible size.

Canada's export credit program under Part 2 of the Export Credits Insurance Act is the principal method of ensuring a continued flow of Canadian commodities to overseas countries other than the United Kingdom during the transitional period after the war. The total direct loans authorized by the Canadian Parliament under this section was raised in December, 1945 to $750 million in addition to the guarantees which might be made up to $200 million. The funds advanced are to enable foreign governments to purchase Canadian produced goods required during the transitional period when this is considered advisable for the purpose of developing and facilitating Canadian trade between Canada and the borrowing country. By the end of March, 1946 total loans of $502.2 million had been extended to the countries shown in Section (a) of the following statement. In addition, there were loans conditionally agreed upon of $142 million shown in Section (b), leaving $105 million of the $750 million of potential credits unallocated.

LOANS UNDER THE EXPORT CREDITS INSURANCE ACT

(a) Loans extended as at March 31, 1946:

Belgium	$ 25,000,000
China	60,000,000
Czechoslovakia	19,000,000
France	242,500,000
Netherlands	125,000,000
Netherlands East Indies	15,000,000
Norway	13,000,000
Union of Soviet Socialist Republics	3,000,000
	$ 502,500,000

(b) Additional loans conditionally agreed upon:

Belgium	$ 75,000,000
Netherlands East Indies	50,000,000
Norway	17,000,000
	$ 142,000,000
(c) Unallocated as of March 31, 1946:	$ 105,500,000
Total Credits to be Authorized	$ 750,000,000

CAPITAL MOVEMENTS BETWEEN CANADA AND THE UNITED STATES DOLLAR AREA, 1945

Inflows of capital to Canada from the United States increased in 1945 even more than in the preceding three years of extraordinarily heavy inflows. Most of the inflows again took the form of sales by Canadians of outstanding Canadian and American securities. The level in 1945 appears to have established a record for inflows of capital from sales of outstanding securities. The principal development in the security trade between Canada and the United States during the year was the very heavy American demand for Canadian domestic bonds. This demand was concentrated in the periods from May to July and in November and December. Provincial issues were again sold in substantial amounts but net sales of these were somewhat less than in previous years. Sales of Dominion guaranteed issues which had been especially heavy in 1942 and 1943 were smaller. American demand for Canadian stocks was much greater in 1945, net sales rising sharply to about $36 million, whereas in 1944 purchases and sales in this trade were close to equilibrium. A large part of the sales in the summer of 1945 was made up of railway stock.

While the total of Canadian issues redeemed in 1945 was about the same size as in 1944, maturities were less and issues called for redemption were greater. New issues of about $80 million sold in the United States in connection with the refinancing of the major part of the called issues were about the same size as in 1944.

Other capital movements to Canada continued to be predominantly inwards. Most of these receipts of capital took the form of increases in Canada's foreign liabilities, there being substantial inflows for direct investments, loans and advances and transfers into non-resident Canadian dollar accounts.

Capital payments being subject to restrictions imposed by exchange control continued to be for the most part for the redemption of securities or other debts. Although certain other exports of capital were permitted in 1945 as in 1944, the total amount of such transfers was relatively small. These transfers were mainly in connection with the extension of Canadian business activities outside of Canada. There were very large debit entries in the capital account reflecting the increase in official reserves of gold and U. S. dollars of $606 million.

There were again special receipts of U. S. dollars from the United Kingdom amounting to $33 million in connection with a settlement covering the United States dollar cost of Mutual Aid to the United Kingdom. There was also a substantial total of receipts from exchange recoveries and adjustments arising principally out of transactions with the sterling area.

CAPITAL AND SPECIAL TRANSACTIONS ON GOVERNMENT ACCOUNT - 1945

Of special interest in 1945 was the extent to which government financing entered into the movement of commodities from Canada. The accompanying statement showing special and capital transactions on Canadian government account separate from all other capital transactions reveals the importance of this situation in 1945. Of the total exports from Canada amounting to $3,655 million, there were $1,041 million which were financed by Mutual Aid and Canada's Contribution to UNRRA and military relief. In addition, there was a further $314 million financed by loans or advances from the Canadian government or a total of $1,355 million directly financed in this way. Other government outlays arising out of Canada's international transactions during the year arose from redemptions of government and municipal securities of $65 million and an increase in the foreign balances of the government having a Canadian dollar equivalent of $668 million.

The larger part of this took place in the United States dollar position of the Foreign Exchange Control Board. As a result of these various transactions, there were gross debits on government account of a special and capital character amounting to $2,088 million during the year. Offsetting part of these were the repayments of $64 million received from the United Kingdom on the $700 million loan of 1942, leaving net government transactions of $2,024 million.

Foremost among the other capital movements during the year were security transactions. These resulted in a net inflow of capital of $301 million apart from the outflow connected with the retirement of government securities already included in the transactions of government account. Most of these inflows of capital were from the United States and were an important contributing factor to the increase in Canada's liquid reserves of gold and U. S. dollars referred to above. Other capital movements were largely offsetting only amounting to debit entries of $7 million on balance, large inflows from the United States and other foreign countries being more than offset by debit entries in the capital account with the sterling area. A great variety of different transactions are reflected by the latter figures. Important among the components are the changes in Canadian dollar balances of non-resident governments and indiviauals and other changes in short-term private position not reflected in official reserves as well as a variety of private capital transactions not involving securities.

ANALYSIS OF SPECIAL AND CAPITAL TRANSACTIONS SHOWING CANADIAN GOVERNMENT ITEMS SEPARATE FROM ALL OTHER CAPITAL TRANSACTIONS, 1945.
(Millions of Canadian Dollars)

	Total	Sterling Area	Foreign Countries
A. Special Transactions			
Mutual Aid	940	838	102
UNRRA Contribution	34	-	34
Military Relief	67	-	67
1. Sub-Total	1,041	838	203
B. Capital Transactions			
Export Credits	53	-	53
Interim advances to United Kingdom	164	164	-
Interim advances to other Countries	97	45	52
2. Sub-Total	314	209	105
Total Direct Financing of Exports of Canadian Goods and Services (1 + 2)	1,355	1,047	308
Change in Dominion Government Balances	668	1	667
Net Retirements of Government Securities	65	50	15
Gross Debits on Government Account	2,088	1,098	990
Repayments by United Kingdom on 1942 Loan	+64	+64	-
Net Government Transactions, Including special transactions	-2,024	-1,034	-990
All Other Security Transactions	+301	-22	+323
Other Capital Movements	- 7	-132	+125
Total Capital Transactions (1)	(-689	-350	-339)
Special Receipts of U. S. dollars from U.K.	-	- 33	+ 33

(1) Excludes Item 1 "Special Transactions" above.

BALANCE OF PAYMENTS WITH THE UNITED KINGDOM AND STERLING AREA DURING THE WAR

During the war the greatly expanded demand for Canadian production became the predominant influence upon the Canadian balance of payments. British and other allied requirements for munitions, food, raw materials and other goods and war services were among the principal contributors to the great wartime development of productive capacity and capital equipment in Canada. The magnitude of the wartime movements of commodities and the provision of services which entered Canada's international accounts is strikingly revealed by the current account of the balance of payments between Canada and the sterling area. During the six years, 1940 to 1945, gross credits in the current account aggregated over $10,600 million. The value of commodities exported on account of the sterling area, both directly to the sterling area and to other theatres of war as well, totalling about $9,000 million, made up the largest part of this aggregate. Of this about $7,900 million was on United Kingdom account. Freight and shipping services and other wartime service activities were also important contributors, the former being about $822 million and the latter approximately $561 million. Munitions, military equipment and ships made up the largest part of the commodity movement or over one-half of the exports on United Kingdom account. Greatly expanded food exports were the next largest element in the total of commodities shipped on British account, representing about 30 per cent. Lumber and wood products constituted another important part of the exports, being about 6 per cent and other industrial materials like non-ferrous metals constituted most of the remainder exported to the United Kingdom. Exports on account of other sterling area countries made up more than $1,100 million of the total.

SUMMARY OF BALANCE OF PAYMENTS TRANSACTIONS BETWEEN CANADA AND THE STERLING AREA, 1940 to 1945

(Millions of Canadian dollars)

Current Expenditures on Account of the Sterling Area in Canada	
Exports on United Kingdom Account (1)	
Munitions and ships	4,228
Food	2,290
Wood Products	479
Non-ferrous Metals	654
Other Commodities	264
Total	7,915
Exports on Account of Other Sterling Area	1,110
Freight	822
War Services	561
Other Current Transactions	200
Total Current Expenditures in Canada	10,608
Current Payments by Canada to the Sterling Area	
Imports from the United Kingdom	680
Imports from other Sterling Area	670
Overseas Expenditures of Canadian Government	2,597
Interest and Dividend Payments	357
Freight and shipping	235
Other Current Transactions	261
Total Current Payments by Canada	4,800
Net Requirements of the Sterling Area for Financing Current Expenditures	5,808
Methods of Financing Gap in Current Account	
Billion Dollar Contribution	1,000
Mutual Aid by Canada to Sterling Area	2,175
Interim Advances by Canadian Government to United Kingdom and India	206
Loan of $700 million to United Kingdom in 1942 (net)	561
Official Repatriations of Securities by Canada	703
Private Repatriations of Securities by Canada	292
Sales of Gold and United States Dollars to Canada	504
Other Capital Movements (2)	367
Total Capital and Special Transactions	5,808

(1) These data reflect payments on account of the United Kingdom rather than recorded commodity movements to the United Kingdom.

(2) Including exchange adjustments and errors and omissions.

The current source of income in Canada available to the sterling area was much less than the requirements for Canadian dollars indicated by the above totals. Gross debits in Canada's current account with the sterling area aggregated about $4,800 million, including expenditures overseas on account of the Canadian forces which amounted to $2,597 million. The other large source of Canadian dollars arose from exports from the sterling area to Canada which amounted to about $1,350 million during the period, apart from movements of aircraft and equipment to Canada for use in the British Commonwealth Air Training Plan. Payments of interest and dividends by Canadian borrowers to British investors of $357 million made up the next largest item in the account. British receipts from shipping services, commercial and financial services, remittances and other current transactions with Canada made up the residue of British receipts of approximately $500 million.

The credit balance in the current account indicates the size of the gap which had to be met by Mutual Aid and other special wartime financial measures. The total current account between Canada and the sterling area shows a maximum credit balance of $1,269 million in 1942 when goods and services financed by the Billion Dollar Contribution to the United Kingdom are included. In 1943 the disequilibrium was only slightly less with a credit balance of $1,216 showing, when goods and services financed by Mutual Aid to the sterling area are included. The rise in gross credits was more than offset in that year by increases in the British supply of Canadian dollars arising mainly from larger Canadian overseas expenditures. An even greater rise in overseas expenditures in 1944 to their peak of $1,085 million had the effect of reducing the credit balance in that year to $879 million even though gross current credits had reached their peak of $2,307 million, with the concentration of munitions payments in the invasion year. In 1945 gross credits were only slightly less than in 1944, heavy shipments of food and other commodities tending to offset the reduction in exports of munitions. But, as overseas expenditures fell sharply after the end of the war, the balance of credits in the current account returned to a level close to that in 1943 and 1944.

During the latter years of the war, the total value of goods and services supplied by Canada to the United Kingdom increased to four or five times the prewar amount. Most of the expansion occurred in the value of commodities shipped on British account although increases in service transactions were proportionately greater. Canadian production of munitions, military equipment and ships became the largest part of Canadian production exported on United Kingdom account. These shipments became particularly heavy from 1942 on, payments for munitions shipped on British account rising to as much as $1,117 million in 1944. This represents about three times as much as the value of all commodities exported annually to the United Kingdom immediately before the war and is substantially greater than the value of all commodities exported to overseas countries before the war. The Canadian shipments of food to the United Kingdom also rose to exceptional heights. Expenditures on food shipped on United Kingdom account in both 1944 and 1945 averaged close to $500 million. This amount also is considerably greater than the value of all exports to the United Kingdom before the war. Other expansions in the value of exports were particularly notable in shipments of aluminum products which were greatly expanded to meet wartime requirements, some of the expansion having been financed by British capital assistance. Another industrial material essential for war purposes was lumber, the shipment of which increased sharply. Other types of wood products were also required in wartime Britain in much greater amounts than before the war. Likewise Canadian ferro-alloys and steel showed notable increases over the prewar levels. Some types of chemicals were also supplied by Canada.

One factor contributing to the very heavy movement of Canadian commodities to the United Kingdom was the arrangement under which Canadian armies were equipped and maintained in the United Kingdom and elsewhere. Some of the munitions and

equipment going from Canada to the United Kingdom was later used by the Canadian forces overseas. But, the financial settlements for these transactions were separate with the result that there were substantial British expenditures in Canada on equipment which was later transferred to Canadian forces and the cost of which became an element in Canadian settlements with the United Kingdom for the costs of maintaining and equiping the overseas forces. Likewise some of the food and other commodities shipped from Canada might have been later consumed by the Canadian forces, but these also would represent another Canadian expenditure in the United Kingdom. This situation tended to increase the volume of financial settlements in both directions between Canada and the United Kingdom during the war.

Among services provided by Canada for the United Kingdom were such distinctly wartime activities as air training, munitions inspection, construction and maintenance of naval bases, the provision of facilities for internment and the many administrative activities required by the British in Canada in connection with the prosecution of the war. The expenditures on war services in the latter years of the war rose as high as $130 million in 1942 and remained at $128 million in 1943 and 1944. Another important rise in British expenditures in Canada rose from shipping and the inland transportation of the huge volume of commodities being shipped overseas. Inland transportation to the ocean ports made up a large part of this, amounting in some years to approximately $60 million. Other expenditures by the British on transportation included the expenditures in Canadian ports on the account of British ships. Under wartime conditions these expenditures expanded very sharply. The number of vessels required to move the commodities was very great and the ships tended to take on more supplies in Canadian ports than has normally been the case in peacetime. Repairs also were a substantial item as well as port dues and other service expenditures connected with shipping. While some of the more customary exchanges of services declined sharply such as civilian travel, these declines were much more than displaced by the emergence of the large wartime factors described above. The pattern of personal remittances was also greatly altered during the latter years of the war; with large numbers of Canadian forces stationed in England, there were very substantial remittances by these men back to Canada.

Since Canadian expenditures on British goods and services were much less than the essential wartime British expenditures on Canadian commodities and services, there was a formidable financial problem of filling the resulting gap in the current account between Canada and the United Kingdom. The predominant movement of commodities to the United Kingdom can not be disassociated from the position of that country as a spearhead and base of operations against the axis. Furthermore, the form which the economic mobilization in Britain took made it difficult for the United Kingdom to provide many of the commodities for export which normally entered into trade with Canada. In 1940 British policy was still directed towards expanding exports in order to finance overseas war expenditures but as the war developed this policy had to be abandoned, with a greater concentration of British industrial and manpower resources towards more direct war ends. Consequently, the volume of British commodities shipped to Canada declined during the latter years of the war although Canadian civilian purchases of commodities from the United Kingdom into Canada did not fall below $100 million until 1944.

Another item of Canadian payments to the United Kingdom which was precluded from expanding was the substantial total of interest and dividends paid by Canadian governments and corporations to British investors in Canada. Since a substantial part of the British current shortage of dollars during the early years of the war was covered by repatriations of Canadian securities held in the United Kingdom, there was a considerable drop in the volume of Canadian payments of interest and dividends to the United Kingdom investors. Official repatriations mainly of Dominion and Canadian National Railway issues amounted to $704 million and the sub-

sequent British loss of income on these bonds led to most of the decline in payments of interest and dividends which had taken place by 1942. In addition, there were private repatriations of Canadian securities of about $300 million, which further led to reductions in Canadian income payments. The next largest normal British source of revenue in Canada, income from shipping services, was also prevented from expanding appreciably because of the course of the war. Most of this revenue normally arose from carrying British exports to Canada. The decline in these exports along with the diversion of British ships to other wartime duties combined to offset the effects of increased ocean transportation costs, with the result that Canadian payments for freight and shipping services were lower in some years during the war than before the war, and were only moderately higher in several other wartime years. Another group of expenditures were those connected with Canadian travel in the United Kingdom and the revenue from passenger fares sold to Canadians travelling on British ships. Pleasure travel ended abruptly with the war, with the result that Canadian travel expenditures in the United Kingdom, apart from the expenditures connected with the Canadian forces overseas, declined to several million dollars compared with an estimated $16 million in the Coronation year 1937. Other current expenditures of a normal character did not change very substantially, but the volume has never been exceptionally large.

There was one large new wartime element in the current account of debits with the United Kingdom, however, which became of primary importance. This was the total of Canadian expenditures in the United Kingdom arising out of the activities of the Canadian forces overseas. These expenditures were to mount to a peak figure of $1,085 million in the invasion year 1944. In the preceding year they had been less than one-half of this amount and in the succeeding year the level was reduced to about $696 million, most of which decline occurred in the first half of the year. The arrangements of the British and Canadian governments for handling these expenditures required that generally all costs in connection with the Canadian forces overseas should be borne by Canada. It developed that much of the equipment of the Canadian forces overseas was obtained through British sources. Similarly, ammunition was procured through the same channels and many of the other commodities and services required for the maintenance of the Canadian forces overseas, such as food, housing, fuel, electricity, transportation and the like. The British government was reimbursed for the costs of these goods and services by payments on account made by the Canadian government. Originally these payments were practically all made in sterling but at a later stage many of the payments were made in Canadian dollars, this being an important British source of direct supply of Canadian dollars at a time when British payments of contracts in Canada were very heavy. Other expenditures of the Canadian forces overseas were met directly by the Canadian government in sterling. The pay and allowances issued overseas were the most important element in these latter expenditures, although other items covering purchases of stores and services of different kinds were also substantial. The largest element in the cost overseas, however, arose from the payments for equipment. Many of these payments were the result of accounting based on capitation rates calculated jointly by the two governments. Although Canadian overseas expenditures reached the high level noted above in 1944, there was still a very large gap in the current account remaining to be financed. In 1944 the high level of overseas payments had the effect of reducing the United Kingdom's current account disequilibrium with Canada to $746 million, compared with $1,149 million in 1943 and $1,223 million in 1942, even though in 1944 British expenditures in Canada for current purposes reached their peak of $2,063 million.

The sterling area's shortage of Canadian dollars has been even greater than the above amounts for the United Kingdom as the other countries of the sterling area besides the United Kingdom have normally as a group had larger expenditures in

Canada than revenue, and this normal disequilibrium was considerably increased during the war, particularly in the latter years when the movement of commodities to the other British Dominions on their own account became large. Even by 1940, however, the balance of credits on current account with other Empire Countries had increased to $76 million compared with $44 million in 1938 and $24 million in 1937. But, by 1944 the balance amounted to $133 million and in 1945 it expanded to $292 million. The principal contributor to this balance of credits is the value of Canadian exports to these countries which customarily exceeds imports by a considerable margin. In addition, there is normally some income from direct investments in these countries by Canadian companies adding to Canadian receipts, as well as a balance of Canadian receipts on freight and shipping account. Some of the latter arises from the inland freight from points of origin in Canada to the ocean ports and some arises from revenue of Canadian ships carrying exports to British Dominions and Colonies. The principal development during the war in service transactions was an increase in credits on freight and shipping account which expanded particularly in the latter two years of the war when the Canadian merchant marine constructed during the war, was in operation and the movement of commodities was heaviest. In addition, there were substantial expenditures on war services in Canada by Australia and New Zealand, mainly on their share of the costs of the British Commonwealth Air Training Plan.

Canadian exports on account of other Empire countries rose early in the war, but not so much as total Canadian exports to these countries, as many of the exports to certain areas in the war zone, or countries in which there were military and naval bases, were on British account. With the development of Mutual Aid, however, there was a considerable increase in the total of exports on the account of these countries as Canadian commodities used in the prosecution of the war by countries receiving Mutual Aid were procured on their own account and partly financed by the Mutual Aid extended to these countries. The peak in exports on the account of other Empire countries occurred in 1945 when they totalled an estimated $351 million. Of this amount, $61 million was financed by Mutual Aid to Australia, New Zealand, India and British West Indies. Exports to many countries for cash were also exceptionally high in that year, particularly to India. There were also exports of locomotives to India financed by advances by the Canadian government. The value of imports from other Empire countries increased substantially during the war and with the exception of the peak year in 1941, remained relatively stable. Shortages in the supply of some commodities and scarcity of shipping prevented imports from this group of countries from meeting the full Canadian demand for their products.

CAPITAL ACCOUNT

Special methods of financing the British deficiency of Canadian dollars arising from the great excess of wartime expenditures over receipts had to be developed. The principal form of financing was the Mutual Aid program, under which Canada provided munitions, food, and other war supplies and services directly to Allied countries unable to pay for these supplies because of financial difficulties caused by the war. Early in the war, however, Britain secured Canadian dollars to cover expenditures in Canada through the official repatriations of Canadian securities held in England. By the end of 1942, virtually all of the Dominion and C. N. R. issues held in the United Kingdom had been repatriated. During the same early period and particularly in 1941 and early in 1942, the deficiency was also covered by Canada accumulating substantial amounts of sterling. The major part of the accumulation was converted in 1942 into the Canadian dollar loan of $700 million to the Government of the United Kingdom. In the same year, the Canadian Parliament appropriated $1,000 million as a gift to the United Kingdom to enable purchases of food and munitions and other requirements to be covered. This contribution took the

form of a financial transfer of funds to be used by the British as required to cover the shortage of Canadian dollars, although in effect it was a transfer of goods and services. The later development of assistance, Mutual Aid, was likewise a contribution to the common cause but was made directly in the form of goods and services to each country requiring aid. Mutual Aid to the sterling area including the Billion Dollar Contribution had a total value of $3,175 million at the end of 1945. Official repatriations of $703 million made up the next largest method of financing and the amount of the $700 million loan to the United Kingdom outstanding at the end of 1945 was about $561 million. Another substantial source of Canadian dollars arose from the purchase of gold and U. S. dollars from the United Kingdom for Canadian dollars. These purchases totalled $504 million during the period to the end of 1945 and provided an important means of meeting Canada's deficiency of U. S. dollars. Private repatriations of securities by Canadians were another source of financing as well as a number of special financial settlements between the Canadian and United Kingdom governments. Following the termination of Mutual Aid at the end of the war, interim advances were made by the Canadian government to the United Kingdom, which by the end of 1945 totalled $164 million, in order to ensure the continued shipments of food to the United Kingdom. In 1946 this method of financing was superceded by the credit of $1,250 million extended by the Canadian government to the United Kingdom in order to facilitate purchases of goods and services in Canada and to assist the United Kingdom in meeting transitional postwar deficits in its current balance of payments. These deficits continued to be substantial in Britain's account with Canada after the end of the war, because of the continued British need for Canadian commodities, particularly food and industrial materials. At the same time, there has been the great contraction in British receipts of Canadian dollars from overseas expenditures. These declined sharply after the war and increases in British exports to Canada have been limited by supplies available in that country, and analysis of special and capital transactions between Canada and Empire Countries during the period from 1937 to 1945 is given in Table XV.

CHANGES IN INTERNATIONAL CAPITAL POSITION BETWEEN CANADA AND THE STERLING AREA

The effects of the war upon the balance of Canadian indebtedness to the United Kingdom have been quite pronounced. British investments in Canada particularly in certain types of securities were sharply reduced by the official repatriations which amounted to over $700 million and also by private repatriations which from the start of the war to the end of 1945 amounted to about $300 million. An analysis of British investments in Canada is presented in the statistical tables appearing at the end of the report.

The official repatriations included all the Dominion government direct issues owned in the United Kingdom and almost all of the Canadian National Railway issues owned there. The private repatriations were scattered over a number of other types of issue, almost one-half arising from redemptions of Canadian securities during the period and the remainder arising from Canadian repurchases of outstanding bonds and stocks held in the United Kingdom. Provincial, municipal and corporation issues are all included in the private repatriations. In the early years of the war particularly, a large number of vested issues were sold in Canada by British agents for the account of the British government. In some cases these include all of some issues of Canadian stocks and bonds held in the United Kingdom.

The other outstandingly large transaction affecting the balance of indebtedness between the two countries was the $700 million loan issued in 1942 to fund the major part of the sterling balances accumulated during the early years of

the war. This loan was reduced in subsequent years by the amount of Canadian securities repatriated through private channels and at the end of 1945 the amount outstanding was approximately $561 million. Since the Billion Dollar Contribution in 1942 and Canada's Mutual Aid program which followed became the major source of financing the sterling area shortage of Canadian dollars, most of the changes in the balance of indebtedness occurred prior to 1943. Changes subsequently mainly arose from the substantial private demand for Canadian securities held in the United Kingdom. As a result of these changes, the balance of Canadian indebtedness to the United Kingdom was reduced by more than a billion and one-half dollars during the wartime period. This contrasts with the balance of indebtedness to the United Kingdom at the beginning of the war of approximately two and one-half billion dollars.

The remaining British investments in Canada are mainly in corporation securities, particularly railway stocks and bonds. There are also scattered British portfolio holdings of other corporation stocks and bonds and substantial British investments in Canadian branches and subsidiaries. These direct investments are distributed throughout Canadian industrial, commercial and financial activities. In a number of cases in the industrial and commercial fields British branches or subsidiaries occupy a prominent place, particularly in certain branches of the textile industry, newsprint, vegetable products and chemical industries. British insurance companies and other financial concerns also have considerable investments in Canadian branches. British holdings of Canadian provincial and municipal bonds are comparatively small in total although many issues originally sold in the United Kingdom are still mainly held there. Canadian investments in the United Kingdom have a value of about $100 million. Apart from some direct investments by Canadian companies in branches and subsidiaries there, the investments are widely scattered portfolio holdings of a great variety of British stocks and bonds, many of which originated from inheritances or are held by persons who have migrated from the United Kingdom to Canada.

The changes in indebtedness discussed above do not include a number of intergovernmental items directly arising out of wartime activities which were the subject of settlements in the Financial Agreement and the Agreement on the Settlement of War Claims between Canada and the United Kingdom which were signed at Ottawa March 6, 1946. Covered by the Financial Agreement was $425 million owing by the United Kingdom to Canada with respect to the British Commonwealth Air Training Plan which the Canadian government agreed to cancel. The Agreement for the Settlement of War Claims covered a more diverse group of outstanding claims which had accumulated during the war. The settlement was completed by the payment by the United Kingdom to Canada of $150 million to cover the balance of Canadian claims against the United Kingdom. Chief among the Canadian claims were interim advances to the United Kingdom under the War Appropriation Act, mainly financing exports of food, following the end of Mutual Aid. There were also advances for other supplies delivered after the end of Mutual Aid and advances to India for locomotives and a variety of amounts owing to Canada arising out of Canadian military and naval activities overseas. More prominent among the amounts owed by Canada to the United Kingdom were balances due with respect to army capitation payments, the balance owing by the air force on reserve stocks account, the balance of the United Kingdom equity in the general working capital fund, and the United Kingdom claims to reserves accumulated in various pool projects arising from price adjustments. The special settlement cancelled all claims between the two governments arising between September 3, 1939 and the end of February, 1946 with the exception of certain special transactions settled otherwise such as the amounts already referred to owing by the United Kingdom with respect to the British Commonwealth Air Training Plan, the 1942 loan to the United Kingdom, claims arising out of military relief and out of transactions for which established procedures were in operation, and certain payments of a routine nature.

Since most of the methods of financing the current account shortage of Canadian dollars experienced by the sterling area during the war were obtained through United Kingdom arrangements, most of the changes of indebtedness effect the position between Canada and the United Kingdom. Changes in indebtedness between Canada and other sterling area countries have not been large. Mutual Aid to some of these countries helped fill the gap in the latter years of the war and other Canadian dollars used by these countries were obtained through the United Kingdom. Before the war the investments of other sterling area countries in Canada were relatively small and Canadian investments in other Empire countries had a value of approximately $76 million. About two-thirds of this was made up of direct investments and the remainder was distributed between portfolio investments of stocks and bonds.

BALANCE OF PAYMENTS WITH THE UNITED STATES DURING THE WAR

Close economic relations with the United States are an important element in the Canadian economic structure. The normal exchange of goods and services between the two countries gives rise to a deficit in Canada's current account with the United States. Canadian participation in the war led to a great expansion in imports of United States merchandise and in other expenditures in the United States. The United States is the principal source of supply for many industrial materials and fuel as well as for many manufactured products, food, capital equipment and other commodities and services. The Canadian expansion in the volume of production and in industrial capacity combined with the effects of larger incomes arising from higher levels of economic activity, all contributed to sharp increases in Canadian imports from the United States. Furthermore, the United States became the source of supply for many commodities formerly purchased overseas. The wide range of commodities available in the United States combined with increased Canadian demands made for very large Canadian imports. The range of Canadian commodities in demand in the United States, on the other hand, is not so great. It is more concentrated on some important export staples which constitute a large part of the total. While increases in United States demand for these commodities were very large, to some extent due to overseas sources of supply being displaced, there was not the sharp rise in Canadian exports to the United States comparable to the early rise in imports until the year 1942 when Canadian production of munitions, ships and other supplies had developed, part of which was sold to the United States. These exports of war supplies remained very heavy for the rest of the war and in addition there were extraordinarily large American purchases of Canadian grain from 1943 on.

The balance of merchandise trade between Canada and the United States has customarily been one of the principal contributors to Canada's current account deficit with that country. This unbalance in the merchandise account and consequently also in the total current account as well, reached its highest pre-war levels, apart from the abnormal year 1920, in 1928 and 1929, the merchandise deficit excluding gold being $307 million in 1928 and $356 million in 1929, and the current account deficit reaching $349 million and $437, respectively. During the depression, the merchandise deficit declined as movements of commodities between Canada and the United States contracted and in 1936 when United States purchases of Canadian grain were heavy because of the drought in the middle west, there was temporarily a small balance of exports to the United States. But, with the recovery of trade the merchandise balance of imports had increased to $132 million in 1938 and the current account deficit with the United States to $149 million. With Canada's wartime requirements the merchandise deficit expanded sharply immediately in 1940 to $268 million and even further in 1941 to $344 million. This rise occurred despite the War Exchange Conservation Act of December 1940, which among other measures, designed to ease the

exchange situation, prohibited the import of certain non-essential commodities from non-sterling area countries. As the increase in imports shows, the saving in exchange from the prohibition of luxury imports was much more than offset by increased wartime expenditures.

In order to meet this situation arising out of Canada's heavy wartime needs for American commodities, it was necessary to develop new sources of receipts of U. S. dollars if Canada was to continue to be able to purchase the imported commodities needed for maintaining war production and the equipment of the Canadian forces and further industrial expansions. As a result of the Hyde Park Agreement of April, 1941 new sources of receipts were developed permitting Canada to specialize in the production of certain types of products required for the war. Some types of Canadian production were especially developed to meet United States requirements and by 1942 receipts were rapidly growing from the resulting export of ships, munitions and raw materials. It was only the effects of the Hyde Park Agreement which prevented the merchandise deficit from expanding even further in 1942 and later. The sale of ships and munitions arising out of the agreement, and later the augmented requirements following the United States entry into the war, led to sharp increases in Canadian receipts from exports. The increases in receipts from exports on United States account in 1942 and 1943 were greater than the expansion in imports during those years with the result that the merchandise deficit was reduced to $205 million in 1942 and $87 million in 1943 and actually transformed in 1944 into an unprecedented surplus from exports amounting to $331 million. This surplus was a very temporary phenomenon however, being the combination of large non-recurrent receipts from munitions of over $300 million in U. S. dollars and from grain of close to $300 million. The latter source of receipts reached its peak in 1944 with the combination of abnormal American demands for grain for use as feed and industrial materials. In 1945 even though receipts from munitions and grain were of the order of $200 million and $100 million, respectively, and although imports showed their first decline a surplus from merchandise trade was reduced to $15 million. By the first quarter of 1946, however, a large merchandise deficit had already developed in Canadian trade with the United States, the surplus in 1944 and 1945 being temporary wartime developments rising out of the coincidence of abnormal receipts from munitions and grain combined with exceedingly heavy American demands for other types of food, newsprint, pulp wood products and other commodities normally entering into Canadian trade with the United States.

Increases in the value of imports from the United States have been widely distributed among different commodities. But, in 1943 the value of each broad group of commodities was at least double the 1939 level with the exception of the smaller groups of commodities, animal products and wood products, for which war demands were relatively small. The increases are due to price increases, including the depreciated exchange value of the Canadian dollar, as well as to increases in volume. The greatest proportionate increase in the value of imports occurred in metal products and changes in the composition of commodities in this group have been very great. Materials and components required in war production not only generally made up the increases but also displaced civilian commodities formerly imported. Then, too, the United States became the principal source of supply for many commodities formerly imported by Canada from overseas, cotton textiles being one of the best examples of this. Increased civilian consumption of some consumers' goods like fruits and vegetables were another factor in expanding imports, although many luxury types of products were excluded by the War Exchange Conservation Act in 1940, in order to conserve U. S. dollars exclusively for more essential war imports. During the six wartime years from 1940 to 1945, Canadian purchases of commodities in the United States totalled $6,271 million as is shown in the following table.

ANALYSIS OF COMMODITIES IMPORTED FROM THE UNITED STATES ON CANADIAN ACCOUNT, 1940-1945

(Millions of Canadian Dollars)

(1) Imports mainly for Civilian Purposes -	
Agricultural and Vegetable Products	520
Animal Products	109
Textiles and Fibres	500
Wood Products	228
Sub-Total (1)	1,357
(2) Imports mainly for Fuel	
Non-Metallic Minerals	1,152
(3) Imports mainly for War Purposes	
Metal Products -	
Classified Iron & Its Products	2,258
Classified Non-Ferrous Metals and Products	407
Unclassified War Imports	789
Total	3,454
Chemicals and Products	356
Sub-Total (3)	3,810
Net Imports Purchased by Canada as above	6,319
Total After Deductions of Non-Commercial Imports and Valuation Adjustments	6,271

While it is impossible to sharply analyse all imports according to their use in war or civilian purposes, the analysis by groups of imports is suggestive of the extent to which special wartime needs contributed to the expansion in imports. A major part of the total of imports is made up of commodities falling in groups mainly employed for war purposes. Imports of metal products including military equipment and imports of chemicals and products had a total value of $3,810 million. Since Canadian production for civilian purposes of durable goods was sharply curtailed early in the war and eliminated in the case of many products, the major demand for imports in this group arose from wartime purposes. Likewise, a large part of the imports of non-metallic minerals totalling $1,152 million can be attributed

to war purposes since the biggest constituents of the group are coal and petroleum, a large part of the demand for which was directly related to war requirements. The remaining group of commodities made up of types mainly used for civilian purposes totalled $1,357 million or only 21 per cent of the total imports purchased. But, a wartime demand existed even in this group of commodities particularly in the textile and fibre group. Thus although an accurate division of imports between civilian and war purposes can not be readily made because of the diverse uses of some industrial materials and fuels, the predominant wartime character of Canadian imports from the United States is readily apparent.

Canadian imports during the war years fluctuated irregularly in relation to national income. Generally the ratio of imports to national income at net factor cost increased during the early part of the war and declined in the last two years. The highest ratio, 19.7 per cent, occurred in 1940, having risen from 16.5 per cent in 1938. The percentage declined in 1941 to 16.3 but increased again in 1942 and 1943 to 17.0 and 17.4, respectively. In 1944 and 1945, however, the ratios fell off to 14.4 and 15.0, these being less than the percentages immediately before the war. (See Table XXIX Page 75)

The growth of abnormal Canadian demands for imports arising from war activities combined with changing sources of supply and shortages of commodities influenced the relationship of imports and national income during this period. In the opening years of the war, imports of machine tools and other industrial equipment needed for developing war production were relatively greater than during the years following the industrial expansion. With the growth in war production there were very great new demands for imported materials and components. These were heaviest in the earlier stages of the war production program with the necessity of building up inventories of goods in process. Import requirements were, consequently, somewhat less in the later stages of the program although there were some large imports of military equipment during the latter years of the period tending to hold up total imports.

The more discernible relations between certain groups of imports from the United States and the Canadian national income have shown some interesting changes. Before the war, during the 1930's, most groups of imports from the United States appear to have fluctuated fairly closely in relation to changes in the national income. With the war, however, the relationships changed greatly. New kinds of production, and new sources of supply, and changed distributions of income contributed to the alteration of the pre-war relationships. The ratio of imports to national income declined in the case of some groups of imports but increased considerably with others. The increases were, as might be expected, greatest in groups of imports predominantly for war purposes like metal products and chemicals. Some of these groups, however, fluctuated irregularly during the war, notably iron and its products and non ferrous metal products. Imports of non-metallic minerals, mainly reflecting demand for fuel, fluctuated fairly closely in accordance with national income.

The greatest expansion in Canadian exports occurred in commodities affected by special wartime demands like munitions, ships and grains, which became prominent in 1942 and thereafter in the case of ships and munitions and between 1943 and 1945 in the case of grain. Of total receipts from exports (excluding gold) of $5,703 - million, munitions, ships and other war supplies sold by War Supplies Limited accounted for $1,187 million, and sales of grain $658 million. Sales of grain to the United States in 1940 were only about $12 million while in 1943 the sharply swollen demand increased these to a Canadian dollar equivalent of approximately $167 million, with further expansion to around $337 million in 1944. The decline from this peak was rapid, sales of grain in 1945 declining to approximately $100 million. Receipts

from war supplies and grain accounted for almost one-third of the total receipts from exports to the United States in the six years. The abnormal war element in other exports to the United States is less readily identified, apart from exports of non-ferrous metals. Exports of aluminum, considerably exceeding $200 million, were a wartime development. Heavier exports of nickel and exports of other non-ferrous metals which had been established trades before the war also are related to special wartime requirements in the United States. Demand for many other Canadian commodities normally entering into trade with the United States was likewise stimulated by wartime situations as well as by increased American civilian consumption. There were larger exports of Canadian wood pulp and newsprint originating from a greater reliance upon Canadian sources of supply. Other commodities increased mainly from larger American civilian consumption as in the case of fish and other foods. Substantial increases occurred in exports of many groups of commodities entering civilian consumption. Miscellaneous agricultural products, animal products, wood products and non-metallic minerals all increased. Higher prices arising from the premium on U. S. dollars and from wartime price increases, as well as larger volume, contributed to the growth in the value of exports of most of these commodities. But many of these commodities were in short supply and exports could not have been expanded indefinitely even if export demands had been greater because of limitations upon Canadian productive capacity. It is clear that American wartime needs for commodities normally purchased in Canada were much less than Canadian requirements for United States commodities. It was only because of large abnormal special receipts from the sale of war supplies and grain that the balance of commodity imports was held down to $568 million during the wartime period as a whole.

ANALYSIS OF RECEIPTS FROM EXPORTS FROM CANADA
ON UNITED STATES ACCOUNT, 1940 - 1945

(Millions of Canadian Dollars)

Munitions, Ships and other war supplies sold by War Supplies Ltd.	1,187
Grain	658
Other Agricultural Products	295
Animal Products	455
Newsprint	789
Pulp Wood	428
Other Wood Products	505
Non-ferrous Metals (N.O.P.)	750
Other Commodities (1)	431
Total Receipts from Exports (Excluding Gold)	5,703
Net Exports of Non-Monetary Gold (2)	939

(1) Including exports of foreign produce.

(2) While the gold produced was not all sold to the United States, it represents an asset potentially convertible into U. S. dollars.

The total current account deficit with the United States during the six wartime years amounted to $761 million. This was greater than the deficit on merchandise account of $568 million which has already been discussed, all the other current transactions entering into Canada's accounts with the United States being also contributors on balance to the current account deficit.

Non-monetary gold and tourist and travel expenditures contributed surplusses, while interest and dividend payments, payments for freight and other transportation and payments for miscellaneous services exceeded receipts. Total credits from non-monetary gold exports amounted to $939 million. This represents the value of the gold produced during the period even though some of it was not actually exported and sold in the United States. Being the equivalent of convertible exchange, gold production can be regarded as a source of current credits in Canada's United States dollar accounts.

The other source of receipts, tourist and travel expenditures which show a surplus of receipts of $396 million during the period, was affected by wartime developments. Because of a growing scarcity of U. S. dollars in 1940, restrictions were introduced during the summer by the Canadian government upon pleasure travel by residents of Canada involving expenditures of U. S. dollars. By the introduction of these restrictions, which were not modified until May, 1944 and 1945, Canadian travel expenditures in the United States were greatly reduced since Canadian pleasure travel in that country was virtually eliminated, travel being limited to essential purposes such as business and health. Canadian expenditures in the United States for travel declined from $67 million in 1939 to $18 million in 1941. Although there were moderate increases in 1942 and 1943, the total expenditures by Canadians did not approach the pre-war level until 1944 when the restrictions were lifted to the extent of permitting a limited amount of expenditures on pleasure travel. A further relaxation in the restrictions in May, 1945, permitted expenditures on pleasure travel for any reasonable amount and Canadian expenditures in that year rose to $83 million. Travel between Canada and the United States in both directions was also greatly affected by other wartime developments. The expenditures of Americans in Canada on travel declined sharply in 1940 following the introduction in the United States of passport requirements for re-entry of persons returning to the United States from a trip in Canada. Although there was some recovery in the traffic in 1941, it fell off in 1942 following the introduction of gasoline rationing and the limitations upon automobile travel imposed by tire shortages and other wartime developments. American expenditures in Canada only recovered moderately in 1943 and 1944, but, in 1945 there was a sharp increase particularly after the end of gasoline rationing in the United States following the termination of the war with Japan. Total American tourist expenditures in Canada in 1945 of $163 million exceeded the immediate pre-war level. The Canadian controls on travel expenditures in the United States had the effect of moderating the decline in net revenues which would otherwise have resulted from the sharp falling off in American pleasure travel to Canada. The average annual revenue on tourist account during the six years was only moderately less than during the immediate pre-war years, although gross receipts and payments on travel account were both substantially less.

The largest source of net debits on current account arises from interest and dividend payments on American investments in Canada. During the six years, payments of interest and dividends exceeded receipts by Canada of interest and dividends from investments in United States by $1,033 million. This represents smaller annual net payments than in the years before the war. Some of the reduction can be attributed to appreciable increases in Canadian receipts of interest and dividends from American securities. Receipts of dividends on direct investments by Canadian companies operating in the United States were greater than before the

war and there were increases in the dividends paid by American public companies on shares held by Canadian investors. Dividends were received on some stocks during the war which had not been paying dividends during the depression and the rates of other dividend payments were increased. The other contributing factors to the reduction in the net payments arose from the reduced dividends paid by Canadian corporations to non-resident investors. Dividends paid by some groups of companies, notably gold mines, tended to decline as the war progressed. Other groups of companies, particularly the Canadian subsidiaries of United States parent companies, made smaller dividend disbursements, although earnings were not reduced. These companies in the aggregate reinvested large amounts of their earnings in Canada. The total undistributed profits of branch and subsidiaries of United States companies in Canada amounted to approximately $215 million during the six year period. Another factor reducing the amount of dividends remitted was the increase to 15 per cent in the non-resident withholding tax on dividends paid by public companies in 1941. Offsetting some of the decline in net dividends received by United States investors was the effect of the premium on U. S. dollars which principally increased the Canadian dollar cost of interest payments to non-residents. In addition to the premium on interest payable in U. S. dollars, there were the additional interest payments arising out of the increased American holdings of Canadian bonds and debentures during the later years of the war.

Canadian payments for freight and transportation services in the United States increased very sharply during the war. Transactions on freight account were closely related to the great expansion in commodity movements. Gross receipts and payments increased very sharply as a result of the expansion in exports and imports. The increase was greatest in the case of Canadian payments to the United States for freight and shipping services with the result that the balance of payments on this account was much larger than before the war. Canadian receipts are mainly for rail freight from the points of shipment of Canadian exports to the border. Receipts from intransit traffic carried from the United States were also much heavier both on Canadian-owned railways and on United States operated railways in South Western Ontario. Canadian railway revenue was also substantial on traffic carried by the Canadian railways for the United States army in connection with defence activities in Canada. There was also some increase in Canadian shipping revenue accompanying the expansion of Canadian shipping services in the latter years of the war. Payments to the United States on freight account are mainly to the United States railways carrying goods from the point of shipment to the border. The freight on increased coal movements was a particularly large item. There was also freight paid to United States railways in connection with movements of Canadian war production overseas by way of United States ports. Ocean freight costs including war risk insurance added greatly to Canada's freight account with the United States during the war, the cost of moving bulk commodities like petroleum and bauxite to Canada being heavy.

All other current transactions besides those already described resulted in net payments by Canada of $72 million. Besides including a great variety of normal, commercial and financial services, this group of transactions embraces some particularly large wartime payments which do not fall in the other groups of classified transactions. Examples of particularly large wartime items affecting the totals are the expenditures of the United States government in Canada on the Alaska highway, air fields, Canol, telephone lines and other defence activities. Cash expenditures in connection with these activities appear as credits in the other transactions. Although the exact amount is difficult to isolate, these transactions are believed to have exceeded several hundred million dollars during the period from 1942 to 1945. The largest unusual payments by Canada included in other current transactions were the special payments of $280 million to the United States Treasury in 1944 covering payments for air fields and telephone lines constructed by the United States in Canada and other war expenditures. Among the more normal current transactions which

have been consolidated into this group of transactions are personal and immigrant remittances, religious and benevolent remittances, motion picture and other royalties, earnings of Canadian residents employed in the United States and United States residents employed in Canada, commercial, financial, professional and technical services and other miscellaneous services. The item also includes miscellaneous remittances of income such as interest on mortgages and loans, rents and income from estates and trusts.

CHANGES IN INTERNATIONAL CAPITAL POSITION

The wartime changes in Canada's capital position in relation to the United States dollar area have been largely offsetting in effect, although the various elements in the position have been quite materially altered. Because of the accumulation of receipts of U. S. dollars in the latter years of the war, there was a very substantial growth in Canada's holdings of gold and U. S. dollars in the wartime peri By the end of 1945, the increase was $1,115 million from the date of inception of exchange control, September 16, 1939. But, offsetting this sharp increase in liquid re serves was a considerable reduction in Canadian holdings of United States and other foreign securities and other assets in the U. S. dollar area together with a substantial increase in United States holdings of securities. During this period, the latte holdings increased $484 million. There were also other increases in American investments in Canada mainly arising out of the reinvestment of earnings of the branches an subsidiaries of United States companies in Canada. As the total amount of these increases in liabilities and reductions in holdings of American securities and other long-term assets was of about the same magnitude as the increase in Canada's liquid reserves, the over-all position change vis-a-vis the U. S. dollar area was not large.

The increase in Canada's external liabilities during the war represents a relatively large proportion of the total American investment in Canada at the end of 1939 of between 15 and 20 per cent. A large part of the increased holdings of securities was holdings of government securities, whereas the reinvested earnings mainly occurred in the industrial and commercial field in which most American controlled companies operated in Canada. The increase in American holdings of Canadian securities, however, is relatively small when considered in relation to the great increase in the total indebtedness of the Canadian government during the war which arose out of wartime borrowing in Canada. Although the absolute amount of Canadian government securities held in the United States increased during the period, the proportion of the debt of the Canadian government held in the United States was considerably less since the larger part of the Canadian wartime borrowing was internal. Canadian bonds held in the United States at the end of 1939 are estimated at $2,115 million or about 21.3 per cent of a total of approximately $10 billion outstanding. By the end of 1945, the United States holdings are estimated to have increased to $2,508 million or about 11 per cent of the total of approximately $22 billion of Canadian bonds outstanding. Even though there has been a considerable increase in the value of United States direct investments in Canada, the absolute amounts have been relatively small in relation to total investments in corporations in Canada. Accompanying the improvement in position of many United States owned companies have been comparable increases in the financial position of Canadian owned companies as well. Much of the wartime increase in American direct investment in Canada arose out of normal reinvestments of earnings. During the latter years of the war, there were some new investments of American corporate companies in business undertakings in Canada but the total of these new investments was still relatively small by the end of the war and during the same period there were some withdrawals of capital in connection with reductions in certain American direct investments in Canada. On the whole, it does not seem that the relative position of American capital in Canadian industry has changed significantly when the substantial expansion during the war in many Canadian industries is considered. More details on United States investments in Canada are presented in a subsequent section of the report and in the statistical tables, and an analysis of capital transactions between Canada and non-Empire countries is given in Table XVI.

STATISTICAL NOTES

Currency Areas

In statements for the period of exchange control, 1939 to 1945, the tables for Empire countries include transactions with the whole sterling area, and tables for Non-Empire countries cover all transactions with the non-sterling area. The latter statements, consequently, include transactions in Canadian dollars and other currencies with the United States dollar area, as well as transactions in United States dollars. Exports financed by Mutual Aid, UNRRA and other official gifts, and by export credits and other advances in Canadian dollars are included in the statements with Non-Empire countries. These official transactions are offset by debit entries shown separately in the statements outside of the current account. Similarly, there are some relatively small debit entries in the current account with Non-Empire countries which represent mainly personal remittances which are not made in United States dollars or related currencies. These debits are offset by adjusting credits in the capital account with Non-Empire countries, there also being adjusting debits in the capital account with Empire countries.

Merchandise Trade

While export and import statistics are the principal source used for this item, they have been adjusted to bring them more into conformity with payments in the two currency areas into which the balance of payments statements are divided.

During the period when data on international payments for war supplies through official channels were available, these have been substituted for the value of goods exported. Thus, in the years 1941 to 1945, British payments through official channels for war supplies and food, and payments by the United States government for war supplies and metals exported under the Hyde Park agreements have been entered as credits in the merchandise account rather than the value of the goods exported. Similarly, from 1943 to 1945, the expenditures from the Mutual Aid Appropriation on account of the various countries are reflected rather than the commodities exported. Since war supplies purchased by the British and United States governments have been shipped to various destinations, this substitution of financial data on payments for the value of goods shipped has been a major adjustment necessary in the construction of balance of payments statements with the two currency areas for the years from 1941 to 1945. The figures in the merchandise item of the tables are accordingly indicative of international payments rather than of shipments of goods to the various countries and areas. Exports are also adjusted on account of wheat and other grain movements for storage. Adjustments have also been made for diversions of grain throughout the period 1926 to 1945. In the years from 1926 to 1930, these adjustments were particularly substantial when large amounts of wheat originally recorded as exported to the United Kingdom were eventually sold in Continental Europe. The adjustments made take the form of deductions from recorded exports to the United Kingdom and additions to recorded exports to other countries. Trade between Canada and Newfoundland has been excluded and shipments of merchandise on Canadian account, such as equipment and supplies for the Canadian forces overseas, Red Cross supplies and private gifts, have also been deducted from the exports as no foreign exchange accrues from these transactions.

Imports of merchandise into Canada for the account of British or Allied Governments have also been deducted from the trade figures. These deductions cover such imports as goods which the British government has shipped to Canada as part of its contribution to the Combined Air Training Organisation and equipment and supplies for the R. A. F. Special Schools in Canada before their absorption into the

Combined Organization. Imports from the United States which have been deducted, are principally made up of aircraft, aircraft engines and parts and other military equipment, and materials for British or Allied organizations in Canada which are not paid for by Canada. Imports are adjusted for warehousing and for over-valuation. From 1943 to 1945, payments made on account by the Canadian government for military equipment and supplies purchased in the United States under the "Canpay" procedure are reflected in the item of imports from the United States rather than the goods imported during the period. Under this procedure, certain goods were purchased from the government of the United States through the Office of Lend Lease Administration for reasons of procurement and priority.

As a result of these adjustments, the merchandise item is more representative of the international payments made between Canada and the various countries and areas shown, particularly during the wartime years. There is still, however, the possibility of divergencies between the time of payment and the time of import or export in the large volume of trade which continues to flow through private channels although some adjustment for these in the case of intracompany transactions appears elsewhere in the balance of payments.

Net Exports of Non-Monetary Gold

This item is the value of "Net Exports of Non-Monetary Gold" as computed by the Bank of Canada and explained on page 152 of the September, 1939, Bank of Canada Statistical Summary. The figures correspond roughly to the value of current production in Canada. The total net exports have been shown in the current account with the United States although in the pre-war period, for instance, there were some exports of gold coin to overseas countries arising out of temporary market conditions in which there was a premium on the price of foreign gold coins. One reason for the procedure followed of showing all non-monetary gold in the current account with the United States was to show a current account with the United Kingdom in these years which is more representative of the more normal commercial trade between Canada and the United Kingdom than is the case when exports of gold coin are included. At the same time, the United States has been the principal market for the world's gold production. Then, too, as gold is interchangeable with United States dollars, gold along with holdings of United States dollars has constituted Canada's liquid reserve of convertible exchange during the war and postwar years, changes in which are entered in the capital account.

Tourist Expenditures

Estimates of tourist expenditures have been greatly improved in recent years. Through the co-operation with the Dominion Bureau of Statistics of the Customs Division of the Department of National Revenue and the Immigration Branch of the Department of Mines and Resources, new methods of estimating tourist expenditures, first introduced in 1940, have resulted in a greater volume of data than was formerly available. In 1941, a more extensive organization of tourist statistics procedure was undertaken. Progress was made, especially in the estimation of the expenditures of automobile tourists. A more uniformly classified count of the automobile traffic was obtained as a basic record of traffic. In addition, larger and more representative samples of tourist expenditures were collected. In recent years over 80 per cent of all the United States motorists entering Canada on a travellers' vehicle permit have reported their total expenditures in Canada. At the same time, samples of over 50 per cent have been obtained from short-term local United States travellers crossing into Canada by car. Virtually all of the expenditures of Canadian motorists in the United States are also covered by a sample which has exceeded 97 per cent of the total traffic in most periods.

The estimates of expenditures in the years 1926-1939 have been revised in the light of information accumulated in recent years, whereas the estimates for 1940-1945 directly reflect the new procedure developed in 1941. In the revision of the pre-war years, the new data on expenditures accumulated during the war have been related to the statistics on the volume of traffic before the war. Since this method has some arbitrary aspects, the resulting estimates for the pre-war years have not as substantial a basis as the estimates for later years. It is believed, however, that they are fairly representative of the level of expenditures in the pre-war years. The new estimates point to much lower levels of expenditures in the pre-war years, particularly in the case of expenditures of United States travellers in Canada, than the estimates originally published.

Interest and Dividends on Securities

This item is limited to interest on bonds and debentures and dividends paid on stock. The earnings of externally owned concerns which are reinvested in Canada are not included. Some remittances of income on investments other than securities, for which data are available for the period from 1940 to 1945 for the first time, have been included in the item "All Other Current Transactions". Estimates of these miscellaneous income items have been included in the latter item for the pre-war years as well.

Revenue accruing to residents of enemy occupied and proscribed territory from investments in Canada, is entered as a debit in the interest and dividend item, and offset by a credit entry in the capital account.

Freight and Shipping

This item includes estimates covering ocean shipping operations, freight paid to United States railways on imports, inland freight earned by Canadian transportation companies carrying exports to the United States border or Canadian ocean ports, revenue received by Canada from intransit traffic, and payments for marine and war-risk insurance on goods imported into Canada from overseas. The accounts between the two currency areas have been adjusted to allow for the U. S. dollar cost of prepaid freight on exports to the Sterling Area.

Ocean shipping transactions include: freight paid to British or foreign ships on imports, expenditures abroad on account of Canadian ships, payments by Canadian companies for the charter of British or foreign ships, earnings of Canadian ships on exports and on traffic between foreign ports, revenue of Canadian companies from the charter of ships and expenditures in Canada on account of British and foreign ships.

All Other Current Transactions

This item includes government expenditures, a wide range of miscellaneous transactions mostly in the field of services, and some unusual transactions which have occurred during the war, and which are not readily classified in any other item. In comparisons of this item from one year to another, its varied composition should be taken into consideration. The treatment of some types of transactions also varies during the period, the net balance being entered in some years and the gross transactions in others.

Government expenditures are more important in the years 1941-1945 than in previous years and represent the bulk of the item in the account with Empire Countries in these years. The expenditures of the Dominion government in connection with

the maintenance of the Canadian armed forces overseas is the most important part of the government expenditures among the debits, and the expenditures of the British government on air training and other wartime activities in Canada, and the expenditures of Australia and New Zealand on air training are the most important among the credit entries for government expenditures in the account with Empire Countries. Payments by the Canadian government for imports of goods and by the British or Allied governments for goods exported, are, of course, not included in this item as they are part of the item "Merchandise Trade". Nor does this item include government transactions belonging to the capital account such as official repatriations, changes in official balances and capital expenditures by the United Kingdom Government.

Also included are variable transactions such as Newfoundland's balance of United States dollar receipts which, from 1941 to 1945, were heavier than usual chiefly owing to the expenditures of the United States Government on bases in Newfoundland. The expenditures of the United States Government on the Alaska Highway and other developments in Canada are also an important source of credits included from 1942 to 1945. In 1943 these expenditures were so heavy that they became a dominant element in the credit item. In 1944 an important part of other current debits in the account with the United States is made up of special payments to the United States Treasury to cover the repurchase of air fields and telephone line and other settlements.

Among the miscellaneous transactions which have been consolidated into this item are personal and immigrant remittances, religious and benevolent remittances, war funds and other private remittances to the armed forces overseas, motion picture and other royalties, earnings of Canadian residents employed in the United States and United States residents employed in Canada, commercial and financial services, telegraph and cable, professional, technical and management services, operating expenses of offices and agencies, and other sundry services. While these personal remittances and service transactions constituted the bulk of the item before the war, they now represent a minor part due to the great expansion in government expenditures on services mentioned above.

The item also includes miscellaneous remittances of income for which data first became available from sources developed in 1940. These remittances cover interest on mortgages and loans, rents, crop share rentals, profits from speculation and certain types of business, income received by Canadians from foreign estates and trusts, etc. Estimates of this miscellaneous income have been included for the pre-war years as well.

Balancing Item

This is a balancing item between the current and capital accounts, and is a reflection of errors or omissions in the statements since in a perfect balance of payments statement, the net balances in the current account and the capital account would exactly offset one another. In the years 1940 to 1945, this relationship exist in the accounts with the Empire and the Non-Empire as well as in the statement with all countries due to exchange control and the consequent existence of two distinct accounts. In statements for the years 1937 to 1939, this relationship only applies to the account with all countries since in the period before exchange control, balances in the account with sterling area countries were freely convertible into United States dollars.

CANADA'S INTERNATIONAL INVESTMENT POSITION

Canada has traditionally been one of the prominent debtor nations. Liabilities to other countries in the form of external capital invested in Canada have exceeded Canadian owned assets abroad by very substantial amounts. Although the balance of Canadian indebtedness to other countries was materially reduced during the war, Canada was still a debtor nation at the close of the war. The balance of Canadian indebtedness to other countries at the end of 1945 is estimated at about $ 3¾ billion, gross liabilities to investors in other countries being close to $ 7½ billion and gross external assets amounting to about $ 3¾ billion if Canada's liquid reserves in U. S. dollars and gold and Canadian government credits to other countries are added to privately owned Canadian investments abroad. This compares with a net external debt of over $5 billion at the end of 1939, and an amount of more than $6 billion in 1930. Also generally reflecting the debtor position are the net payments made by Canada to other countries in the form of dividends and interest on bonds and debentures. These payments exceeded receipts of income from abroad by $177 million in 1945, compared with $249 million in 1939, and $289 million in 1930. Net income accruing to non-residents was considerably larger than this in 1945, however, as payments of dividends by Canadian companies owned abroad were much lower than earnings in that year. But more significant than the net investment position are the composition and geographical distribution of total external liabilities and assets which are very diverse in nature.

Along with the reduction in the net indebtedness of Canada to other countries during the war were appreciable changes in the character and composition of Canada's international liabilities and assets and in the geographical pattern and currency significance of the position. Total foreign investments in Canada had a total value close to the total in 1939 but a larger percentage of the total, 70 %, represented investments held in the United States, a large reduction having occurred in British owned investments in Canada. At the same time there was a basic change in the composition of Canadian assets abroad. The holdings of United States securities by the Canadian public declined while there was a large increase in Canadian official liquid reserves in U. S. dollars and gold, if the latter is regarded as a foreign asset because of its readily convertible character. Thus the balance of Canadian indebtedness to the United States remained close to $3 billion if gold and other liquid assets in the United States are included in the calculation, while the balance of Canadian indebtedness to the United Kingdom along with some investments held there for other countries was reduced to approximately $ 1 billion if government indebtness is excluded which was later settled in the Settlement of War Claims of March, 1946 between Canada and the United Kingdom. At the same time the value of Canadian assets in the rest of the world, including export credits to foreign countries which had been disbursed by the end of 1945, exceeded indentifiable investments in Canada owned by all countries other than the United Kingdom and the United States by a considerable amount. The position with respect to individual overseas countries, of course, varies widely, Canada being a creditor in some cases and a debtor in others, although the amounts in most instances were still relatively small in 1945.

There are some striking contrasts in the composition of Canada's international assets and liabilities. A major part of the assets are owned by the Canadian government in the form of cash balances, gold, and loans to other governments, the Canadian dollar value at the end of 1945 of these assets being $1,279 million, $388 million and $707 million respectively.

Privately owned assets abroad in the form of foreign securities and properties owned by Canadian companies and individuals amounted to a minor part of the total value of all assets at the end of the war, whereas at the beginning of the war they constituted most of the total. The direct investments of Canadian companies in 1945 had a value of about $720 million and portfolio investments of Canadian individuals and corporations had an estimated value of $621 million. But, there is a considerable non-resident equity in some of the direct investments abroad of Canadian companies, as in some important instances the latter are the Canadian subsidiaries of foreign owned companies or are publically owned Canadian companies with many portfolio shareholders residing outside of Canada and income originating abroad is eventually received by non-resident shareholders. Since in the case of Canadian insurance companies and banks with operators abroad there are the liabilities arising from their businesses outside of Canada also to be considered, the investments of these institutions have not been included among Canadian assets abroad.

While a substantial portion of Canada's liabilities abroad is represented by non-resident holdings of the bonds of Canadian governments as well as railway and corporation issues, there is no inter-governmental indebtedness in Canada's liabilities abroad. In addition to the large contractual portion of Canada's external debt giving rise to regular payments of interest there is the large non-resident "equity" interest in Canadian businesses, a specially significant part of which takes the form of the direct investments by foreign companies in Canadian branches and subsidiaries. These investments also give rise to large remittances of income which fluctuate however in accordance with business activity and other factors.

Because of the substantial non-resident interest in Canadian companies with direct investments abroad it is necessary in calculating the balance of indebtedness to made allowance for this situation. The figure of gross liabilities used in calculating the balance of indebtedness therefore includes about $226 million in 1945 representing the non-resident investors equity in the external assets of Canadian companies with branches and subsidiaries abroad. In tables showing the distribution of British and foreign investments in Canada these externally owned assets are excluded.

BRITISH AND FOREIGN INVESTMENTS IN CANADA

At the end of the war the total value of British and foreign investments in Canada is estimated at $7,095 million. While the exact distribution of ownership of this total is not known, an indication of the ownership is given by the countries in which the securities are held. Investments held in the United Kingdom are estimated to have had a book value of $1766million. Besides including British owned investments this total also includes some investments held in the United Kingdom by nominees for residents of other countries. The value of investments held in the United States at the same time had a book value of $4,982 million. While generally indicative of the American ownership, this total also includes an indeterminable amount of securities held in the United States by nominees for residents of other countries. The remaining amount of external capital invested in Canada, $ 347 million, was owned in other overseas countries. The total investments in Canada owned in these other overseas countries would include therefore the $347 million plus the indeterminable amounts included in the British and United States totals shown.

The total value of all non-resident investments in Canada at the end of 1945 was very close to the amount at the end of 1939. Wide changes occurred however in the distribution of ownership, there being a sharp decline in the value of United Kingdom investments in Canada and substantial

increases in investments of the United States and other countries in Canada. This total of non-resident investments in Canada was considerably less than in earlier periods, however, being exceeded by the totals in both 1933 and 1930 as shown in the accompanying summary of non-resident investments in Canada, 1926 - 1945. But the investments held in the United States and in other overseas countries in 1945 were much higher than in earlier periods, whereas the level of United Kingdom investments in Canada was lower than in any period for a number of decades.

Summary Non-Resident Investments
in Canada - 1926-1945.
(Millions of Canadian Dollars)

	1926	1930	1933	1939	1945
Held in United Kingdom	2,636.3	2,766.3	2,682.8	2,475.9	1,776.0
Held in United States	3,196.3	4,659.5	4,491.7	4,151.4	4,982.0
Held in Other Countries	170.0	188.0	190.0	286.0	347.0
Total - Non-Resident Investments	6,002.6	7,613.8	7,364.5	6,913.3	7,095.0

By the end of 1945 about 43 % of the external capital invested in Canada was represented by holdings of bonds and debentures compared with about 56% in 1939. The proportionate decline was even greater in the case of British investments in Canada because of the official repatriations of Dominion and C.N.R. bonds, but the percentage of United States capital invested in bonds was also a little less than in 1939, even though the total holdings of Canadian bonds in the United States increased from an estimated $2,095 million in 1939 to $2,357 million in 1945. The proportion of total Canadian bonds outstanding represented by the bonds held in the United States was, however, much less in 1945 than in 1939 because of the extent of wartime financing by the Dominion Government through sales of bonds to Canadians. At the end of 1939 Canadian bonds held in the United States represented about 21% of the total of almost $10 billion of outstanding Canadian issues. By the end of 1945 the United States holdings amounted to approximately 11% of something over $22 billion of Canadian bonds outstanding. The proportion of all bonds held outside of Canada in 1945, of course, dropped even more because of the sharp decline in British holdings. While the proportion of Canadian indebtedness in the form of funded debt owned abroad declined sharply during the six wartime years, the increase in the absolute amount of Canadian bonds held in the United States should not be overlooked for this gives rise to increased liabilities in the future when the bonds are redeemed and to larger current payments of interest to the United States. The interest paid on this large debt held in the United States represents a rigid element in the substantial item of debits on income account with the United States. In 1945 the Canadian equivalent of the interest paid to the United States on Canadian bonds and debentures is estimated at about $108 million.

Another significant aspect of the increase in Canadian bonds held in the United States is the extent of the increase which occurred in Canadian domestic issues in contrast to Canadian issues payable in U. S. dollars. The major part of the increase in United States holdings of Canadian bonds

occurred in the domestic group of Dominion Victory Bond issues floated in Canada during the war. Although there were very heavy gross sales of outstanding Canadian issues payable in U. S. dollars a very large part of these were offset by the redemption of large Dominion issues as well as redemptions of many provincial, municipal and corporate issues maturing during the wartime period. Consequently while there was a substantial reduction in the outstanding amount of Canadian bond issues payable in U. S. dollars or with the option of payment in that currency, there was some increase in the aggregate amount of issues in this group held in the United States.

While the proportion of direct issues of the Dominion government held in the United States declined sharply during the war there was a very substantial increase in the proportion of Canadian National Railway and other Dominion guaranteed issues held there, as well as more moderate increases in the proportions of provincial and municipal issues held in the United States. In 1945 about 4% of all outstanding Dominion direct issues were estimated to be held in the United States. In the case of Canadian National Railway and other guaranteed issues over one-half were held in the United States while about one-third of provincial issues were held there and probably close to one-quarter of municipal issues, and there was only a small change in the proportion of United States holdings of other corporation bond issues.

The relative position of non-resident investments in Canadian industry at the end of the war is not as clearly delineated as in the case of foreign holdings of Canadian government bonds. There has been an appreciable increase in the value of non-resident ownership of Canadian industry, apart from the Canadian National Railways. Most of this, $419 million, has occurred in investments by United States companies in branches and subsidiaries in Canada and is discussed at greater length in the section on "United States Direct Investments in Canada". There has also been a considerable increase, $106 million, in American portfolio investments in Canadian railway and industrial stocks, as well as the increases in holdings of C.N.R. bonds, but the reduction in British holdings of Canadian railway issues repatriated during the war was much greater than the increase in Canadian National Railway bonds held in the United States. Investments by other countries have also increased moderately and at the same time some British investments in Canadian industry have increased in value, although the total British investment in Canadian industries and railways has been sharply reduced by official repatriations and sales of securities in Canada.

Total non-resident investments in Canadian businesses, excluding the Canadian National Railways, have increased from $4,241 million to $4,790 million, but if estimated non-resident holdings of Canadian National Railway bonds are included the gross external investment in all Canadian businesses has increased only from $4,935 million to $5,154 million. This increase in the narrower field of privately owned industry and commerce is small in relation to the great expansion in capital employed by Canadian industry during the war. Most of this expansion was directly financed by Canadian sources. The capital assistance to Canadian industry by the Canadian government amounted to over $800 million in the form of fixed assets alone. In addition there was during the war a large growth in the amount of working capital employed financed by both the government and private Canadian sources, as inventories of materials and goods in process grew with the development of production. Another notable development in the financial position of Canadian companies was the heavy investment of surplus funds in marketable securities, mainly issues of the Dominion government.

At the same time the funded debt of Canadian corporations has been reduced. Besides the government investments in munitions plants and other fixed assets there were some substantial new investments by Canadian industries in plants and equipment, as well.

A valuation of total capital employed in Canada at the end of 1945 comparable to statistics on capital employed at the opening of the war is not available, because of the diversity of the wartime changes in capital invested, uncertainties as to the future value of some assets in a peacetime economy, and uncertainties as to the relative extent of depreciation which occurred during the war in Canada's physical equipment. The relative extent to which the position of some individual non-resident owned companies may have altered in relation to Canadian owned industry is also difficult to evaluate, particularly under conditions of a high level of economic activity and changing demands.

In 1939 when a valuation of total capital employed was available, non-resident ownership of Canadian manufacturing enterprises constituted about 42% of the total capital invested with wide variations in the position of different groups of industries as shown in the accompanying statement, non-resident investments in textiles being only 17% of the total capital invested in the industry compared with 79% in the chemical industry. In mining and smelting, railways and other utilities, and financial institutions the corresponding percentages were 40, 45 and 43% respectively, while in merchandising establishments the non-resident proportion was very small.

PERCENT OF BRITISH AND FOREIGN OWNERSHIP
OF CANADIAN INDUSTRY - End of 1939.

Type of Industry	% of Non-Resident Ownership	
All Manufacturing enterprises		42
Vegetable products	43	
Animal products	22	
Textiles	17	
Wood & paper products	47	
Iron & its products	34	
Non-ferrous metals (1)	77	
Non-metallic minerals	46	
Chemicals and allied products	79	
Miscellaneous manufactures	56	
Mining & Smelting companies (2)		40
Railways and Other Utilities		45
Steam railways	57	
Power Companies & Commissions	25	
Other Utilities	31	
Merchandising establishments		9
Total of all above concerns		38
Financial Institutions		43

(1) Includes smelting of imported ores.
(2) Smelting restricted to domestic ores.

The increase in the book value of non-resident investments in Canadian business between 1939 and 1945 amounted to about $219 million. More than this amount occurred in the groups of industries undergoing wartime expansions in which investments of Canadian capital were also heavy like the metal and chemicals industries. It is not likely that the ratio of non-resident investments has changed widely in such groups as agricultural and vegetable products, textiles, animal products, non-metallic minerals, merchandising, mining and financial institutions. But in railways and other utilities the non-resident investment now represents a considerably smaller part of the total.

UNITED STATES DIRECT INVESTMENTS IN CANADA

The direct investments of United States businesses in Canada in branches, subsidiaries and controlled companies makes up an important group of United States investments in Canada. The aggregate value of these direct investments is great, amounting to $2,300 million at the end of 1945 compared with $1,881 million at the end of 1939, or an increase of $419 million or 22% during the six wartime years. While this increase stands out in comparison with the moderate decline in this group of investments that occurred during the decade before the war, it represents a relatively small increase compared to the sharp rate of expansion which occurred in the value of American direct investments in Canada between 1926 and 1930, when the total value increased in four years from $1,402.5 million in 1926 to $1,992.7 million in 1930, or a gain of 42% during the four pre-depression years of rapid expansion. Changes in the aggregate between 1930 and 1939 were relatively slight, there being a moderate decline in the value. But the prewar period was characterized generally by under-investment and low levels of economic activity. The increase during the war of $419 million should be considered along with the "fixed capital assistance" to Canadian industry of over $800 million financed by the Canadian government during the war as well as other new industrial expansion financed internally. The wartime increase in American direct investments mainly arose from reinvestments of earnings as only a minor part of the increase in value resulted from direct inflows of capital to Canada during the period. Although increases were fairly general, they mainly occurred in industries undergoing sharp wartime expansions, such as iron and its products and non-ferrous metals, chemicals and allied products, and mining and smelting. Direct investments in merchandising and financial companies also increased appreciably. The most substantial reduction in direct investments occurred in public utilities and there was also a moderate decline in investments in the animal products group of industries.

Up until 1944 there were only a relatively few new direct investments made, but in 1944 there was a considerable influx of capital for the establishment of new investments and this apparent wartime accumulation continued in 1945 when there were also further reinvestments of earnings as in earlier years.

BOOK VALUE OF UNITED STATES DIRECT INVESTMENTS IN CANADA IN COMPANIES CONTROLLED IN THE UNITED STATES BY FORMS OF INVESTMENT

1926 - 1945
(Millions of Dollars)

	1926	1930	1933	1939	1945 (x)
Capital Stock	1000.0	1329.4	1271.6	1289.2	1609.0
Bonds	187.6	336.3	338.3	305.8	290.0
Other Investments	214.9	327.0	323.4	285.9	401.0
TOTAL	1402.5	1992.7	1933.3	1880.9	2300.0

(x) Subject to revision.-

BOOK VALUE OF UNITED STATES DIRECT INVESTMENTS IN CANADA IN COMPANIES CONTROLLED IN THE UNITED STATES, December 31, 1939 and 1945

		1939		1945 (1)
		(Millions of dollars)		
Manufacturing:		983.7		1,285.0
Vegetable Products	95.5		140.0	
Animal Products	47.3		44.0	
Textiles	19.7		28.0	
Wood & Paper Products	280.9		316.0	
Iron & Its Products	188.0		272.0	
Non-Ferrous Metals	130.3		203.0	
Non-Metallic Minerals	112.0		133.0	
Chemicals & Allied Products	88.2		118.0	
Miscellaneous	21.8		31.0	
Mining and Smelting:		197.8		252.0
Railways and Public Utilities:		398.8		355.0
Steam Railways	80.8		85.0	
Other Utilities	318.0		270.0	
Merchandising:		119.3		155.0
Financial:		125.9		199.0
Miscellaneous:		55.4		54.0
Grand Total		1880.9		2,300.0

(1) Subject to revision.

More than half of the total direct investments in Canada are in manufacturing, or $1,285 million. The total value of these American companies controlled in the manufacturing field probably represents close to one-third of the total investments in manufacturing concerns in Canada, although, as already pointed out, it is particularly difficult to evaluate these forms of investment at the present time. In the broader field of Canadian business;- all industrial, mining and commercial concerns including railways and utilities, the ratio of investments controlled in the United States is much less, possibly around one-fifth at the present time. But, even the high percentage of American controlled companies in the manufacturing field in Canada should not be taken as an indication that Canadian industry in general is dominated by United States companies for the direct investments are widely distributed through a great many companies and the percentage of American controlled companies varies considerably in different industries. In some industries like the manufacture of automobiles, rubber goods, electrical appliances and the refining of petroleum the United States controlled companies predominate. /

They are also predominant in non-ferrous metals and in chemicals. But outside of certain industries of which these are examples, the United States controlled groups are less important and there are many industries and trades in which the leading firms and the predominance of control is Canadian, like the primary iron and steel industry and cotton textiles and merchandising. In other branches of industry the American controlled portion, while representing a large part, nevertheless shares the field generally with Canadian capital as is the case in the pulp and paper industry and mining.

In appraising the extent and significance of American control, the wide diffusion of American direct investments should be borne in mind and the extent to which competition exists among the competing American controlled firms in an industry in Canada, as is illustrated in the automobile and petroleum industries. It is also notable that the extent of control and degree of management of many companies by parent companies varies, making it difficult to generalize regarding control. The investments have been selected for inclusion in the direct investment category generally when American ownership constitutes fifty percent or more of the capitalization of a concern. But there are some exceptions to this general rule where investments have been included when they represented less than fifty percent of the capital. These have been limited to instances, however, where close affiliation and control by the United States company are known to be well established. There are therefore some investments by United States companies in minority holdings of stock of Canadian companies which are not included in the compilation although in many cases the relations between the Canadian and American company may be fairly close because of business arrangements. At the same time certain companies have been included in the classification when fifty percent or more of the capital is owned in the United States even though the American ownership may be widely scattered and there may be no one company in the United States controlling the concern. The group of controlled companies has therefore been compiled on a basis which does not attempt to reveal the selective qualitative factors of control which may exist. The data represent potential control rather than an attempt to analyse the actual extent to which American industries actively exercise control over Canadian industries.

The branch plants occupy a more important place in the Canadian economy than their value suggests for the existence of this group of investments leads to close business relationships between Canada and the United States. With many companies there are in use common designs, and research and advertising facilities, as the Canadian products are comparable to the products produced by the parent companies in the United States. This is particularly important in the field of durable goods, especially consumers durable goods. The United States is therefore an important source of supply for companies producing in this field as components and materials are often bought from parent companies or related producers in the United States. The Canadian balance of payments with the United States is therefore affected in many respects by the inter-company relationships which have grown up. Besides the heavy imports of parts and materials from the United States, there are numerous payments for management and professional services, royalties and research as well as the payments of dividends and profits to parent companies and other investors in the United States. Other branches and subsidiaries have been established in Canada as a source of supply for the American parent companies and lead to exports of materials and supplies required in the United States as in the case of wood pulp and certain kinds of mining. The production in Canada consequently increases the extent of processing in Canada of many Canadian raw materials. The existence of Imperial Preferences has often been advanced as a reason for the establishment of many American companies in Canada, and the existence of overseas markets in Empire countries has normally made it possible for many companies to maintain an

economic level of output. Overseas markets have also been allocated to Canadian subsidiaries by parent companies to maintain output of the subsidiaries.

The concentration of more than one-half of the total American direct investments in a small number of concerns should be noted. More than one-half of the United States-owned direct investment or $1,133.8 million in 1944 was represented by investments in forty branches, subsidiaries or controlled companies in which the United States investment amounts to $10 million or more. Furthermore, more than another one-quarter of the remaining American investment is in concerns where the investment is between $1 million and $10 million. In this group there were 226 firms in 1944 with an average investment of between $2 million and $3 million. The result is that only a minor part of the direct investments, about 18%, or $399.5 million was distributed between 1,503 companies or 85% of the total number of companies in Canada controlled in the United States in which the investment is significant. There is also an indeterminate number of small branches where United States investment is of negligible size. In the group of 1,503 smaller companies in which there is some significant amount of capital invested the average value of investments is relatively small or some $265,000 per firm. The value of the total investment in this group of companies is relatively small in relation to total investments in Canadian industries. Because of their number these firms may sometimes give rise to impressions of widespread penetration even though their production is relatively small in total. Their significance lies more in certain industries where United States firms predominate rather than in their aggregates as a group. From the point of view of the value of investments and of production, the main significance of American direct investments lies in the activities of a relatively small number of companies, the 40 larger concerns with investments of $10 million or over and the 226 firms with investments ranging between $1 million and $10 million. These two latter groups account for more than 80% of the total of American direct investments. While it is difficult to arrive at the total number of business firms in Canada, some indication of the number of companies is given by the number of active companies reporting tax returns to the Department of National Revenue. For the tax year 1944 there were 25,307 active taxable companies reporting. In addition there are the large numbers of unincorporated business firms which are Canadian owned, particularly in the merchandising and services fields.

The value of investments shown is the book value as carried in the balance sheets of the Canadian companies. In the case of holdings of stock, some of the stock of the companies controlled in the United States is quoted on Canadian stock exchanges but approximately two-thirds of the total book value of stock holdings is made up of issues which are not quoted on Canadian exchanges and for which the only available basis of valuation is the book value. It happens that the book value of the marketable securities has been much less than the market prices prevailing in recent years. At the end of 1945 the market value of the group of quoted stocks was approximately twice the book value in the aggregate. This difference between book and market value was concentrated in a relatively small number of issues of stock and was particularly wide in the mining field and in the non-ferrous metal industry and in petroleum refining. The excess of the market values over the book values was approximately $700 million at the end of 1945, and presents an alternative basis of evaluating the investments. In comparing the total American direct investments in Canada, however, with other data on investments in Canada it should be noted that for the most part these are on a basis more comparable to the book value than the market value. The book value is therefore more relevant in comparing the American direct investments in Canada with total Canadian investment in Canadian industry and commerce. It is a better reflector of reinvested earnings and new investment.

UNITED STATES PORTFOLIO INVESTMENTS IN CANADA

Portfolio investments in Canadian securities owned or held in the United States increased to about $2,552 million in 1945 from $2,165 million in 1939, apart from any changes in the scattered individual holdings of securities included in the total United States investments in branches, subsidiaries and controlled companies which have been included in the direct investment group discussed above. Some of the latter investments are made up of a large number of individual holdings of stocks and bonds in companies which are controlled in the United States and consequently for analytical purposes specified as American direct investments in Canada. Most of the total of portfolio investments is made up of holdings of Canadian bonds which amounted to $2,068 million in 1945, exclusive of the $289 million bonds of railways and other companies controlled in the United States. The principal changes and relative significance of the increase in United States holdings of Canadian bonds have already been discussed above. In addition to the bonds of Canadian governments and Canadian controlled companies, in the $2,068 million total there is an indeterminable part of the American holdings of bonds in United States controlled companies in Canada which might also be regarded as portfolio investments from some points of view. The total bonds of American controlled companies held in the United States by parent companies and others in 1945 was $289 million. Besides the portfolio investments in bonds there were the United States holdings of stocks of Canadian controlled companies which at the end of 1945 had a book value of $460 million and a much higher market value at the same time. This marked an increase of $106 million over the book value of the corresponding group of United States investments in 1939. As well as reflecting net sales of stock to United States investors, the increase also reflects a considerable increase in the book values arising from re-investments of earnings by the Canadian companies during the six year period. The value of United States holdings of stocks of the Canadian controlled companies which were quoted on Canadian stock exchanges had a value of considerably more than $500 million at the end of 1945 when prices of stocks were at a higher level than they had been for a period of years previously. In addition to the portfolio holdings of stock in Canadian controlled companies, there was also an indeterminable amount of the holdings of stock of Canadian companies controlled in the United States which in many respects are comparable to portfolio holdings, and also investments of about $13 million in the capital stock of Canadian companies controlled in the United Kingdom and various other small items.

Miscellaneous investments by United States investors in Canada in addition to the direct and portfolio investments are estimated at $130 million in 1945. Making up this amount are estimates of a great variety of assets in such forms as mortgages, agricultural lands, summer homes and other residential properties, commercial real estate, prospecting, estates and trusts, investment companies and other assets administered for persons or corporations in the United States. Balances in Canadian banks owned by United States residents are not included in the statistics of United States investments in Canada. Short term commercial indebtedness is also excluded.

BRITISH INVESTMENTS IN CANADA

Total British investments in 1945 of $1,766 million, including some investments held in the United Kingdom for owners living elsewhere, can be roughly divided into portfolio investments of $1,313 million, direct investments of about $368 million, and miscellaneous investments of $85 million. These totals at the end of the war compare with total British investments in Canada of $2,476 million at the end of 1939, of which portfolio investments were $1,990 million, direct investments $366 million, and municipal investments $120 million. Most of the large reduction in British investments in Canada has occurred in portfolio holdings of securities, particularly Dominion government and Canadian National Railway issues. The par values of the reduction in holdings of these two groups of issues arising from official repatriations were $238 and $403 million, respectively. There were also some substantial repurchases of other Canadian National Railway issues through private capital markets in Canada. Retirements of Canadian bonds in addition to the official repatriations amounted to approximately $125 million during the six years and a considerable part of the other repurchases of $168 million of Canadian securities was also made up in bonds. While these security transactions cover the principal reductions in British investments in Canada, there were other changes in the value of investments in the other direction during the same period. As the book value of British holdings of Canadian securities increased substantially the net decline in the total value of British investments in Canada during the six years is considerably less than the reduction indicated by the security transactions alone. The book value of British holdings of Canadian stocks increased substantially, and even though there were large repurchases of issues by Canadians the total book value was much higher at the end of the war than at the beginning.

More than one-half of the portfolio investments in 1945 was made up of holdings of stock in Canadian companies controlled in Canada or the United States, $688 million being the book value of the stock of companies controlled in Canada, and $57 million the book value of stock in companies controlled in the United States. The major part of the value of stock in Companies controlled in Canada was made up of railway stock, the book value of which was considerably higher than the market value. In the case of many of the other stocks held, however, the book values at which the issues are included in the totals were much lower than the market values at the end of 1945 and the result is that in the aggregate there was no wide difference between the total book value and total market value of British holdings of stock in the Canadian companies at that time. Holdings of Canadian provincials, municipals and corporation bonds made up the bulk of the remainder of British portfolio investments in Canada, having an estimated par value of $565 million in 1945 exclusive of $23 million bonds of companies in the British direct investment group. As many of the bonds held were issues payable in sterling only the par value was considerably higher than the Canadian dollar equivalent of the bonds at the prevailing exchange rate but the market values, however, were probably not a great deal less than the par values in the aggregate as many of the issues were selling at a premium. More than one-half of the holdings of bonds was made up of railway issues which amounted to $316 million, provincial and municipal issues totalled $40 and $112 million, respectively, and portfolio holdings of other Canadian corporation issues were $97 million.

In addition to the above portfolio holdings of stocks and bonds there was a further estimated $85 million of miscellaneous investments, some of which had a portfolio character. These were constituted in the main

by the Canadian assets of investment companies, estates and trusts, mortgages and other real estate investments and other assets administered for residents of the United Kingdom.

British direct investments in branches, subsidiaries and controlled companies in Canada had a value of about $368 million in 1945 compared with $365 million in 1939. While the industrial distribution of the investments was not widely different in the latter year, there was some change in composition, the amount of investments in the form of bonds being smaller and the investments represented by capital stock being greater. A large part of the direct investments was concentrated in certain fields of business. Investments in financial and insurance companies amounted to $117 million, the insurance companies being about $62 million of this. A large part of the investment in manufacturing of $157 million was primarily in consumer goods industries, such as vegetable products and textiles, with investments in the pulp and paper industry also being substantial, but there was very little investment in the metal and durable goods industries in contrast to heavy American direct investments in these industries in Canada. Investments in merchandising amounting to $51 million were next in importance, while there was only $23 million invested in mining and $15 million in utilities.

Value of British Investments in Canadian Branches, Subsidiaries and other Companies Controlled in the United Kingdom, December 31, 1945.

(Millions of dollars)

Manufacturing	157
Mining	23
Utilities	15
Merchandising	51
Financial	117
Miscellaneous	5
Total Direct Investments	368

In 1944 there were 452 British concerns in Canada included in the direct investment group reporting investments of a significant size. Of these 314 were subsidiary companies or Canadian companies controlled in the United Kingdom and 138 were uncorporated branches in Canada of British companies. The number of concerns in the manufacturing industries amounted to 133 while in merchandising there were 138 firms, and 146 concerns in the financial field including 103 insurance companies maintaining branches or subsidiaries in Canada. In addition there were 11 mining companies, 6 utilities and 18 other businesses controlled in the United Kingdom.

INVESTMENTS HELD IN OTHER COUNTRIES

Investments in Canada by countries other than the United Kingdom and the United States which can be directly identified are estimated at $347 million in 1945 compared with $286 million in 1939. Much of the increase in value represents reinvestments of earnings as many of the investments were owned in the countries of Western Europe with which communications were cut off during the wartime period. Some of the increases arise from new investments of capital from Latin America and other countries which were neutral during the war. In addition to the above totals, there are some appreciable amounts of investments held in the United Kingdom and other countries which are believed to be owned elsewhere.

Most of these investments are portfolio investments which amounted to about $223 million in 1945 compared with $177 million in 1939. Holdings of $108 million of bonds, exclusive of the bonds of companies controlled in this group of countries were higher than formerly. Likewise portfolio holdings of the stock of Canadian companies with a book value of $114 million were higher than in 1939. These portfolio holdings of stock were distributed widely among many companies in the railway, utility, manufacturing and mining fields. Direct investments in companies controlled abroad had a value of $55 million in 1945 compared with $49 million in 1939. About $39 million of direct investments were in financial companies and about $11 million in manufacturing. Miscellaneous investments amounted to an estimated $69 million in 1945. A prominent part of this is made up of the Canadian assets of investment companies and other investments administered for non-residents as well as mortgages and real estate holdings.

Basis of Valuations

It is important to note the basis of valuation employed in arriving at the statistics of British and foreign investments in Canada for no basis of valuation is ideal for all purposes. In the case of bonds and debentures, par values expressed in Canadian dollars are shown, issues payable in sterling or United States dollars being converted at the par of exchange. These values are more representative of the capital invested than are market values. In the case of stocks and other investments in corporations, the book values reflected in the balance sheets of the Canadian companies are shown. This provides a more stable basis of valuations than do market values. In fact, over a wide range of investments, particularly in the field of direct investments, there is no market value available. The book value of stocks furthermore reflects the investment or dis-investment of current earnings in Canada. The valuation bases employed are, therefore, not indicative of the liquidation value of the investments.

A calculation of the market values at the end of 1945 of stocks listed on the Canadian stock exchange shows, when compared with book values, that the market value of United States holdings at the time was much greater than the book value for the same group of stocks. In the case of British holkings of stock the relations between book and market values have been less consistently in one direction. Prior to 1945 market values were much lower than the book values but by the end of 1945 the market values of British holdings of Canadian stock in the aggregate were very close to the total of the book values, although there were wide differences in both directions in the case of certain issues. With railway issues, book values were particularl

high in relation to market values, while in some other important holdings of stock the reverse was the case. As regards bond issues, market values would probably show considerably higher amounts than the par values of many issues, particularly issues payable in United States dollars, because of the premium on this currency at the end of 1939 and 1945. Sterling issues on the other hand would have a lower value if calculated in Canadian dollars at the official rate of exchange at the end of both years. But, offsetting this to some extent there would be the higher market values as most of the issues were selling at prices considerably in excess of the nominal value.

Canadian investments abroad have been calculated in terms of Canadian dollars at market rates of exchange because of the necessity of expressing such a variety of investments in common terms. While the market values of Canadian holdings of United States stocks at the end of 1939 were not widely different from the book values as shown on the balance sheets of the principal American companies whose stocks are held in Canada, there was by the end of 1945 a greater increase in market values than in book values which had increased about 20% in the interval. Consequently the market value of Canadian holdings of United States stocks in 1945 were considerably greater than the book values shown in the table of Canadian Investments Abroad. In the case of portfolio holdings of Latin American and European bonds held there would be a significant difference between market values and the par values at which the issues are shown. Market values of this group of issues in the aggregate have been very considerably depreciated for a period of years.

CANADIAN ASSETS ABROAD

Canada's external assets in 1945 were much larger in total and different in composition from assets owned in 1939 and earlier periods, rising from $1,865 million in 1939 to $3,715 million in 1945. The most striking change was the growth in official liquid reserves mainly of United States dollar balances and gold which had a Canadian dollar value of about $1,667 million in 1945. Gold is included in these totals because of its ready convertibility into U. S. dollars and its consequent comparability to other cash reserves. Another pronounced change was the increase in the total of outstanding Canadian government credits to other countries which totalled approximately $707 million compared with $31 million in 1939. This total includes export credits under the Export Credits Insurance Act and advances of about $105 million, about $561 million outstanding of the 1942 loan to the United Kingdom and earlier loans to foreign governments of approximately $41 million. There was also an improvement in the value of Canadian direct investments in businesses outside of Canada which had a value of about $720 million. In contrast, portfolio holdings of foreign securities owned in Canada were sharply reduced to $621 million in 1945 from $719 million in 1939. This decline is less than the total sales of these securities by private investors during the period as there was a considerable increase in the book value of United States stocks still held in 1945.

Canadian Assets Abroad, 1930 - 1945

(Excluding investments of insurance companies)
(Millions of Canadian Dollars)

	1930	1939	1945
Direct Investments in -			
Businesses Outside of Canada	443	671	720
Portfolio Holdings of Foreign Securities	842	719	621
Government Credits	31	31	707
Net External Assets of Canadian Banks	180	(1)	(1)
Official Liquid Reserves (2)	(1)	444	1,667
	1,496	1,865	3,715

(1) Not available.
(2) Including holdings of gold which at the end of 1945 had a Canadian dollar value of $388 million.

The direct and portfolio investments mainly represent private investments by Canadian companies and individuals abroad. The direct and portfolio investments abroad totalled $1,341 million at the end of 1945. The major part of this investment $864 million represents investments in the United States, while investments in the United Kingdom amounted to $107 million, in other Empire countries $88 million, and in other foreign countries $282 million. These figures exclude the investments abroad of Canadian insurance companies and banks and official assets such as cash balances, gold and inter-governmental credits referred to above. Also excluded are relatively small amounts of miscellaneous investments such as real estate, mortgages, etc., which are not represented by securities and which are difficult to evaluate.

Direct investments amounting to $720 million made up more than one-half of the total and the largest part of this amount, $455 million, was in the United States. The largest part of the remainder, $142 million was in other foreign countries, direct investments in the United Kingdom and other Empire countries being $54 million and $69 million, respectively. It should be noted that some of these direct investments abroad are investments by Canadian companies in which there are varying degrees of non-resident interests. The amount of direct investments in which there is a clear Canadian beneficial ownership would be considerably less than the total of all direct investments by Canadian companies.

Value of Canadian Direct Investments Abroad in Branches, Subsidiaries, and Controlled Companies, 1945
(In Millions of Canadian Dollars)

Type of Business Abroad	Location of Investments				
	United States	United Kingdom	Other Empire Countries	Other Foreign Countries	Total all Countries
Railways and Utilities	212	(2)	7	20	239
Industrial and Commercial	214	53	34	36	337
Mining and Petroleum	25	-	28	85	138
Other (1)	4	1	(2)	1	6
Total	455	54	69	142	720

(1) Excluding insurance companies and banks.
(2) Amount is less than $500,000.

About one-half of the direct investments in the United States is made up of investments in railways and other utilities, the total investment in all utilities being $212 million. This total is based on the book values of investments and is high in relation to the earnings, particularly in the case of steam railways. Direct investments in the commercial and industrial fields in the United States had a value of about $214 million. A great variety of types of business are included in this total although there is a concentration in distilleries. Investments in mining and in the petroleum industry, including the transportation of petroleum amounted to about $25 million. Most of the total of $54 million direct investments in the United Kingdom is in the commercial and industrial field and a considerable amount is made up of investments by companies in which there is a substantial non-Canadian interest. About one-half of the investments of $69 million in other Empire countries was made up of commercial and industrial concerns with investments in mining and smelting and petroleum making up another large portion. There were also investments in utilities in other Empire countries. More than one-half of the total of $142 million invested in other foreign countries was in the petroleum industry and the non-Canadian interest in this group of investments was particularly large. Investments in commercial and industrial concerns in other foreign countries had a value of about $36 million and investments in public utilities about $20 million.

Portfolio investments in foreign securities had a book value of about $621 million in 1945. Of this $454 million represents the approximate book value of the holdings of stock and $167 million represents the par value of holdings of bonds. The market value of the stock in the aggregate had a considerably higher value than the book value in 1945, whereas the market value of the bonds was probably still appreciably less than the par value shown.

The figures shown for both stocks and bonds is the Canadian dollar equivalent of the United States dollars or other foreign currencies at the current exchange rate.

Portfolio investments in the United States amounted to about $409 million, stocks being $317 million and bonds $92 million. A detailed analysis of Canadian portfolio holdings of United States stocks in 1939 revealed that the total holdings at that time of $380 million were made up of a great many issues although there were important concentrations of holdings in some of the more prominent issues of United States stocks. About 70% of the total was made up of industrial and commercial issues, and 15% was in public utility issues other than railroads. The remainder was distributed is smaller portions among railroads, mines, financial and other issues.

The external assets of Canadian banks and insurance companies have been excluded as these assets must be considered in relation to the external liabilities of these concerns arising from their position outside of Canada. Canadian insurance companies have large holdings of British, United States and foreign securities but because of the fiduciary nature of the position the liabilities to the policy holders must be considered. Total liabilities outside of Canada exceed total assets outside of Canada. This is possible because the assets underlying the reserve funds need not all be held in foreign securities. The relative distribution of assets and liabilities in some countries and currency areas is different from this however. In the United States, for example, assets exceed liabilities, whereas in the United Kingdom and some other areas the reverse is the case. The relative mobility and liquidity of many of the assets make this possible. Because of this situation and the limited significance in the distribution of insurance assets by countries there have been no figures on insurance company investments shown in the table of estimated Canadian investments abroad.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table I - Current Account Between Canada and All Countries, 1926-1945
(Millions of Dollars)

Year	Current Receipts	Current Expenditures	Net Balance On Current Account	Mutual Aid and Other Official Contribution in Current a/c	Net Balance on Current Account Excl. Mutual Aid & Official Contributions
1926 ...	1,665	1,538	+ 127	-	+ 127
1927 ...	1,633	1,643	- 10	-	- 10
1928 ...	1,788	1,820	- 32	-	- 32
1929 ...	1,646	1,957	- 311	-	- 311
1930 ...	1,297	1,634	- 337	-	- 337
1931 ...	972	1,146	- 174	-	- 174
1932 ...	808	904	- 96	-	- 96
1933 ...	829	831	- 2	-	- 2
1934 ...	1,020	952	+ 68	-	+ 68
1935 ...	1,145	1,020	+ 125	-	+ 125
1936 ...	1,430	1,186	+ 244	-	+ 244
1937 ...	1,593	1,413	+ 180	-	+ 180
1938 ...	1,361	1,261	+ 100	-	+ 100
1939 ...	1,457	1,331	+ 126	-	+ 126
1940 ...	1,776	1,627	+ 149	-	+ 149
1941 ...	2,458	1,967	+ 491	-	+ 491
1942 ...	3,376	2,275	+ 1,101	+ 1,002	+ 99
1943 ...	4,064	2,858	+ 1,206	+ 518	+ 688
1944 ...	4,557	3,539	+ 1,018	+ 960	+ 58
1945 ...	4,633	2,914	+ 1,719	+ 1,041	+ 678

Table II - Geographical Distribution of the Balance on Current Account Between Canada and Other Countries, 1926-1945.

Net Receipts or Credits (+); Net Payments or Debits (-)
(Millions of Dollars)

Year	All Countries	United Kingdom (1)	Other (2) Overseas Countries	United States (3)
1926	+ 127	+ 58	+ 300	- 231
1927	- 10	- 19	+ 257	- 248
1928	- 32	- 21	+ 338	- 349
1929	- 311	- 99	+ 225	- 437
1930	- 337	- 106	+ 113	- 344
1931	- 174	- 54	+ 85	- 205
1932	- 96	- 14	+ 86	- 168
1933	- 2	+ 26	+ 85	- 113
1934	+ 68	+ 46	+ 102	- 80
1935	+ 125	+ 62	+ 92	- 29
1936	+ 244	+ 122	+ 123	- 1
1937	+ 180	+ 135	+ 122	- 77
1938	+ 100	+ 127	+ 122	- 149
1939	+ 126	+ 137	+ 105	- 116
1940	+ 149	+ 343	+ 98	- 292
1941	+ 491	+ 734	+ 75	- 318
1942	+ 1,101	+ 1,223	+ 58	- 180
1943	+ 1,206	+ 1,149	+ 76	- 19
1944	+ 1,018	+ 746	+ 241	+ 31
1945	+ 1,719	+ 928	+ 763	+ 28

(1) Excluding wheat exports diverted to other overseas countries, and exports of gold.
(2) Including estimated wheat sold in European Countries.
(3) Including all net exports of non-monetary gold.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table III - Revised Estimates of Current Account Between Canada and All Countries
(Millions of Dollars)

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
A. Current Credits with All Countries											
Merchandise exports	1,272	1,215	1,341	1,178	880	601	495	532	648	732	954
Tourist and travel expenditures	152	163	177	198	180	153	114	89	106	117	142
Interest & dividends	32	41	46	61	59	48	37	38	57	64	75
Freight and shipping	96	97	96	92	70	54	38	44	52	68	80
All other current credits	83	85	88	80	69	59	54	44	43	45	47
Total as above	1,635	1,601	1,748	1,609	1,258	915	738	747	906	1,026	1,298
Net exports of non-monetary gold	30	32	40	37	39	57	70	82	114	119	132
Total Current Credits	1,665	1,633	1,788	1,646	1,297	972	808	829	1,020	1,145	1,430
B. Current Debits with All Countries											
Merchandise imports	973	1,057	1,209	1,272	973	580	398	368	484	526	612
Tourist and travel expenditures	99	100	98	108	92	71	49	44	50	64	75
Interest & dividends	240	257	275	322	348	330	302	264	268	270	311
Freight and shipping	105	109	116	130	103	79	66	66	79	82	97
All other current debits	121	120	122	125	118	86	89	89	71	78	91
Total Current Debits	1,538	1,643	1,820	1,957	1,634	1,146	904	831	952	1,020	1,186
Net balance on Current Account											
Excluding all gold	+ 97	- 42	- 72	- 348	- 376	- 231	- 166	- 84	- 46	+ 6	+ 112
Including non-monetary gold	+127	- 10	- 32	- 311	- 337	- 174	- 96	- 2	+ 68	+125	+ 244
Monetary gold	+ 1	- 7	+ 49	+ 37	- 36	+ 33	+ 3	+ 6	- 4	- 2	-
Including all gold	+128	- 17	+ 17	- 274	- 373	- 141	- 93	+ 4	+ 64	+123	+ 244

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table IV - Estimated Current Account Between Canada and the United Kingdom, 1926-1936

(Millions of Dollars)

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
A. Credits with the United Kingdom											
Merchandise exports (adjusted) (2)	315	271	288	224	174	139	149	188	234	258	342
Gold exports (1)						(1)		(63)	(27)	(16)	(59)
Tourist & Travel expenditures	8	10	9	9	8	8	7	5	7	7	8
Interest and dividends	2	2	2	2	2	1	1	2	2	2	2
Freight and shipping	15	10	11	8	7	9	5	8	11	21	23
All other current credits	12	12	13	13	12	13	14	11	7	7	7
Total Current Credits excluding gold	352	305	323	256	203	170	176	214	261	295	382
B. Current Debits with the United Kingdom											
Merchandise imports (adjusted)	148	171	194	188	147	85	61	80	103	110	120
Tourist & Travel expenditures	21	20	19	20	18	14	14	10	10	12	15
Interest and dividends	97	101	100	113	115	102	91	72	75	76	84
Freight and shipping	8	11	10	12	12	9	11	12	14	21	26
All other current debits	20	21	21	22	17	14	13	14	13	14	15
Total Current Debits	294	324	344	355	309	224	190	188	215	233	260
Net Current Account Balance Excluding Gold	+ 58	- 19	- 21	- 99	- 106	- 54	- 14	+ 26	+ 46	+ 62	+ 122

(1) Exports of gold to the United Kingdom are omitted from total credits with the United Kingdom.

(2) Excluding estimated wheat exports diverted to other overseas countries.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table V - Estimated Current Account Between Canada and the United States, 1926-1936
(Millions of Dollars)

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
A. Current Receipts from the United States											
Merchandise exports (adjusted)	476	489	507	519	397	254	169	177	226	285	369
Net exports of non-monetary gold (1)	30	32	40	37	39	57	70	82	114	119	132
Tourist expenditures	140	148	163	184	167	141	103	81	96	107	129
Interest and dividends	12	16	20	30	30	25	18	17	20	24	31
Freight and shipping	64	69	68	68	52	38	25	28	32	33	41
All other current credits	65	67	69	61	51	41	37	30	33	35	36
Total Current Credits Including All Non-monetary Gold	787	821	867	899	736	556	422	415	521	603	738
B. Current Payments to the United States											
Merchandise imports (adjusted)	652	690	810	875	634	372	246	205	278	299	352
Tourist expenditures	70	72	72	81	67	52	30	30	36	48	54
Interest and dividends	138	151	169	202	225	221	205	188	189	190	222
Freight and shipping	85	84	92	103	80	61	48	45	55	47	53
All other current debits	73	72	73	75	74	55	61	60	43	48	58
Total Current Debits	1,018	1,069	1,216	1,336	1,080	761	590	528	601	632	739
Net Current Account Deficit including all net exports of non-monetary gold	- 231	- 248	- 349	- 437	- 344	- 205	- 168	- 113	- 80	- 29	- 1

(1) All exports of non-monetary gold are included in the account with the United States.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table VI - Current Account Between Canada and Other Countries than the United Kingdom and United States, 1926-1936
(Millions of Dollars)

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
A. Current Credits with Other Countries											
Merchandise exports (1)	481	455	546	435	309	208	177	167	188	189	243
Tourist & travel expenditures	4	5	5	5	5	4	4	3	3	3	5
Interest and dividends	18	23	24	29	27	22	18	19	35	38	42
Freight and shipping	17	18	17	16	11	7	8	8	9	14	16
All other current credits	6	6	6	6	6	5	3	3	3	3	4
Total - Current Credits	526	507	598	491	358	246	210	200	238	247	310
B. Current Debits with Other Countries											
Merchandise imports	173	196	205	209	192	123	91	83	103	117	140
Tourist & travel expenditures	8	8	7	7	7	5	5	4	4	4	6
Interest and dividends	5	5	6	7	8	7	6	4	4	4	5
Freight and shipping	12	14	14	15	11	9	7	9	10	14	18
All other current debits	28	27	28	28	27	17	15	15	15	16	18
Total - Current Debits	226	250	260	266	245	161	124	115	136	155	187
Net Credits on Current Account	+ 300	+ 257	+ 338	+ 225	+ 113	+ 85	+ 86	+ 85	+ 102	+ 92	+ 123

(1) Including estimated wheat sold in European countries.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table VII - Transactions Between Canada and All Countries, 1937-1945

(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944	1945
A. CREDITS - WITH ALL COUNTRIES									
Merchandise exports adjusted	1,041	844	906	1,202	1,732	2,515	3,050	3,590	3,655
Net exports of non-monetary gold	145	161	184	203	204	184	142	110	96
Tourist and travel expenditures	166	149	149	104	111	81	88	119	165
Interest and dividends	76	66	57	52	60	67	59	71	76
Freight and shipping	112	95	102	138	185	221	288	322	340
All other current credits	53	46	59	77	166	308	437	345	301
Total Current Credits	1,593	1,361	1,457	1,776	2,458	3,376	4,064	4,557	4,633
Special Gold Transactions (2)	-	-	2	248	-	23	143	55	33
Capital Credits	622	458	558	283	566	1,235	677	689	533
B. DEBITS - WITH ALL COUNTRIES									
Merchandise imports adjusted	776	649	713	1,006	1,264	1,406	1,579	1,398	1,442
Tourist and travel expenditures	87	86	81	43	21	26	36	58	85
Interest and dividends	302	307	306	313	286	270	261	264	253
Freight and shipping	137	105	119	132	167	228	294	252	222
All other current debits	111	114	112	133	229	345	688	1,567	912
Total Current Debits	1,413	1,261	1,331	1,627	1,967	2,275	2,858	3,539	2,914
Special Gold Transactions (2)	-	-	2	248	-	23	143	55	33
Capital Debits	794	570	694	471	1,063	1,341	1,354	737	1,222
Billion Dollar Contribution	-	-	-	-	-	1,000	-	-	-
Mutual Aid	-	-	-	-	-	-	512	936	940
Contributions to UNRRA	-	-	-	-	-	-	-	11	34
Military and Other Relief	-	-	-	-	-	2	6	9	67
C. NET BALANCES - WITH ALL COUNTRIES									
Merchandise trade adjusted	+ 265	+ 195	+ 193	+ 196	+ 468	+1,109	+1,471	+2,192	+2,213
Net exports of non-monetary gold	+ 145	+ 161	+ 184	+ 203	+ 204	+ 184	+ 142	+ 110	+ 96
Tourist and travel expenditures	+ 79	+ 63	+ 68	+ 61	+ 90	+ 55	+ 52	+ 61	+ 80
Interest and dividends	- 226	- 241	- 249	- 261	- 226	- 203	- 202	- 193	- 177
Freight and shipping	- 25	- 10	- 17	+ 6	+ 18	- 7	- 6	+ 70	+ 118
All other current transactions	- 58	- 68	- 53	- 56	- 63	- 37	- 251	-1,222	- 611
Total Current Account	+ 180	+ 100	+ 126	+ 149	+ 491	+1,101	+1,206	+1,018	+1,719
Special Gold Transactions (2)	-	-	-	-	-	-	-	-	-
Capital Accounts	- 172	- 112	- 136	- 188	- 497	- 106	- 677	- 48	- 689
Billion Dollar Contribution	-	-	-	-	-	1,000	-	-	-
Mutual Aid	-	-	-	-	-	-	- 512	- 936	- 940
Contributions to UNRRA	-	-	-	-	-	-	-	- 11	- 34
Military and Other Relief	-	-	-	-	-	- 2	- 6	- 13	- 67
Balancing Item (1)	- 8	+ 12	+ 10	+ 39	+ 6	+ 7	- 11	- 10	+ 11
	- 180	- 100	- 126	- 149	- 491	-1,109	-1,206	-1,018	-1,719

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically.

(2) This represents gold or United States dollars received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table VIII - Transactions Between Canada and Empire Countries, 1937-1945

(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944	1945
A. CREDITS - WITH EMPIRE COUNTRIES									
Merchandise exports adjusted	493	442	436	699	1,098	1,541	1,763	1,970	1,954
Tourist and travel expenditures	12	10	9	6	3	2	1	2	2
Interest and dividends	7	5	5	3	5	7	5	9	8
Freight and shipping	45	43	43	76	119	127	148	169	183
War Services	-	-	-	20	74	130	128	128	81
All other current credits	8	8	9	18	22	19	21	29	38
Total Current Credits	565	508	502	822	1,321	1,826	2,066	2,307	2,266
Capital Credits	118	102	97	116	181	884	20	146	73
B. DEBITS - WITH EMPIRE COUNTRIES									
Merchandise imports adjusted	235	184	177	236	279	226	200	196	213
Tourist and travel expenditures	18	17	13	3	3	2	2	2	2
Interest and dividends	87	83	80	76	68	51	52	56	54
Freight and shipping	47	34	39	36	36	49	47	33	34
Canadian Overseas expenditures	-	-	-	29	97	191	499	1,085	696
All other current debits	19	19	17	23	33	38	50	56	47
Total Current Debits	406	337	326	403	516	557	850	1,428	1,046
Special Gold Transactions(2)	-	-	2	248	-	23	143	55	33
Capital Debits	142	155	180	330	990	1,129	586	144	423
Billion Dollar Contribution	-	-	-	-	-	1,000	-	-	-
Mutual Aid	-	-	-	-	-	-	503	834	838
C. NET BALANCES - WITH EMPIRE COUNTRIES									
Merchandise trade adjusted	258	+ 258	+ 259	+ 463	+ 819	+1,315	+1,563	+1,774	+1,741
Tourist and travel expenditures	- 6	- 7	- 4	+ 3	-	-	- 1	-	-
Interest and dividends	- 80	- 78	- 75	- 73	- 63	- 44	- 47	- 47	- 46
Freight and shipping	- 2	+ 9	+ 4	+ 40	+ 83	+ 78	+ 101	+ 136	+ 149
All other current transactions	- 11	- 11	- 8	- 14	- 34	- 80	- 400	- 984	- 624
Total Current Account	+ 159	+ 171	+ 176	+ 419	+ 805	+1,269	+1,216	+ 879	+1,220
Special Gold Transactions(2)	-	-	- 2	- 248	-	- 23	- 143	- 55	- 33
Capital Account	- 24	- 53	- 83	- 214	- 809	- 245	- 566	+ 2	- 350
Billion Dollar Contribution	-	-	-	-	-	-1,000	-	-	-
Mutual Aid	-	-	-	-	-	-	- 503	- 834	- 838
Balancing Item (1)	(1)	(1)	(1)	+ 43	+ 4	- 1	- 4	+ 8	+ 1
				- 419	- 805	-1,269	-1,216	- 879	-1,220

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically. In the statements of transactions with Empire Countries and with Non-Empire Countries it reflects mutilateral settlements in the period before exchange control.

(2) This represents gold and United States dollars received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table IX - Current Transactions Between Canada and the United Kingdom, 1937-1945

(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944	1945
A. CURRENT CREDITS - WITH THE UNITED KINGDOM									
Merchandise exports adjusted	385	337	332	542	914	1,424	1,636	1,796	1,603
Tourist and travel expenditures	11	8	7	5	2	2	1	2	2
Interest and dividends	2	2	2	2	4	5	4	8	4
Freight and shipping	38	34	34	60	110	114	128	139	145
War Services	-	-	-	10	45	96	104	96	65
All other current credits	8	8	9	17	18	16	16	22	35
Total Current Credits	444	389	384	636	1,093	1,657	1,889	2,063	1,854
B. CURRENT DEBITS - WITH THE UNITED KINGDOM									
Merchandise imports adjusted	148	119	106	133	137	116	100	94	100
Tourist and travel expenditures	16	15	11	2	2	2	2	2	2
Interest and dividends	85	81	78	74	66	50	51	55	53
Freight and shipping	43	30	36	32	28	41	40	28	30
Canadian Overseas expenditures	-	-	-	29	97	191	499	1,085	696
All other current credits	17	17	16	23	29	34	48	53	45
Total Current Debits	309	262	247	293	359	434	740	1,317	926
C. NET CURRENT BALANCES - WITH THE UNITED KINGDOM									
Merchandise trade adjusted	+ 237	+ 218	+ 226	+ 409	+ 777	+1,308	+1,536	+1,702	+1,503
Tourist and travel expenditures	- 5	- 7	- 4	+ 3	-	-	- 1	-	-
Interest and dividends	- 83	- 79	- 76	- 72	- 62	- 45	- 47	- 47	- 49
Freight and shipping	- 5	+ 4	- 2	+ 28	+ 82	+ 73	+ 88	+ 111	+ 115
All other current transactions	- 9	- 9	- 7	- 25	- 63	- 113	- 427	-1,020	- 641
Total Current Account	+ 135	+ 127	+ 137	+ 343	+ 734	+1,223	+1,149	+ 746	+ 928
Mutual Aid and Contribution (Included in Credits above)	-	-	-	-	-	+1,000	+ 501	+ 774	+ 777

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table X - Current Transactions Between Canada and Other Empire Countries, 1937-1945

(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944	1945
A. CURRENT CREDITS - WITH OTHER EMPIRE COUNTRIES									
Merchandise exports adjusted	108	105	104	157	184	117	127	174	351
Tourist and travel expenditures	1	2	2	1	1	(1)	(1)	(1)	(1)
Interest and dividends	5	3	3	1	1	2	1	1	4
Freight and shipping	7	9	9	16	9	13	20	30	38
War Services	-	-	-	10	29	34	24	32	16
All other current credits	(1)	(1)	(1)	1	4	3	5	7	3
Total Current Credits	121	119	118	186	228	169	177	244	412
B. CURRENT DEBITS - WITH OTHER EMPIRE COUNTRIES									
Merchandise imports adjusted	87	65	71	103	142	110	100	102	113
Tourist and travel expenditures	2	2	2	1	1	(1)	(1)	(1)	(1)
Interest and dividends	2	2	2	2	2	1	1	1	1
Freight and shipping	4	4	3	4	8	8	7	5	4
All other current debits	2	2	1	(1)	4	4	2	3	2
Total Current Debits	97	75	79	110	157	123	110	111	120
C. NET CURRENT BALANCES - WITH OTHER EMPIRE COUNTRIES									
Merchandise trade adjusted	+ 21	+ 40	+ 33	+ 54	+ 42	+ 7	+ 27	+ 72	+ 238
Tourist and travel expenditures	- 1	-	-	-	-	-	-	-	-
Interest and dividends	+ 3	+ 1	+ 1	- 1	- 1	+ 1	-	-	+ 3
Freight and shipping	+ 3	+ 5	+ 6	+ 12	+ 1	+ 5	+ 13	+ 25	+ 34
All other current transactions	- 2	- 2	- 1	+ 11	+ 29	+ 33	+ 27	+ 36	+ 17
Total Current Account	+ 24	+ 44	+ 39	+ 76	+ 71	+ 46	+ 67	+ 133	+ 292
Mutual Aid Included in Credits	-	-	-	-	-	-	+ 2	+ 60	+ 61

(1) Less than $500,000

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XI - Transactions Between Canada and Non-Empire Countries, 1937-1945

(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944	1945
A. CREDITS - WITH NON-EMPIRE COUNTRIES									
Merchandise exports adjusted	548	402	470	503	634	974	1,287	1,620	1,701
Net exports of non-monetary gold	145	161	184	203	204	184	142	110	96
Tourist and travel expenditures	154	139	140	98	108	79	87	117	163
Interest and dividends	69	61	52	49	55	60	54	62	68
Freight and shipping	67	52	59	62	66	94	140	153	157
All other current credits	45	38	50	39	70	159	288	188	182
Total Current Credits	1,028	853	955	954	1,137	1,550	1,998	2,250	2,367
Special Gold Transactions(2)	-	-	2	248	-	23	143	55	33
Capital Credits	504	356	461	167	385	351	657	543	460
B. DEBITS - WITH NON-EMPIRE COUNTRIES									
Merchandise imports adjusted	541	465	536	770	985	1,180	1,379	1,202	1,229
Tourist and travel expenditures	69	69	68	40	18	24	34	56	83
Interest and dividends	215	224	226	237	218	219	209	208	199
Freight and shipping	90	71	80	96	131	179	247	219	188
Canadian overseas expenditures	-	-	-	-	-	-	-	-	25
All other current debits	92	95	95	81	99	116	139	426	144
Total Current Debits	1,007	924	1,005	1,224	1,451	1,718	2,008	2,111	1,868
Capital Debits	652	415	514	141	73	212	768	593	799
Mutual Aid	-	-	-	-	-	-	9	102	102
Contribution to UNRRA	-	-	-	-	-	-	-	11	34
Military and Other Relief	-	-	-	-	-	2	6	9	71
C. NET BALANCES - WITH NON-EMPIRE COUNTRIES									
Merchandise trade adjusted	+ 7	- 63	- 66	- 267	- 351	- 206	- 92	+ 418	+ 472
Net exports of non-monetary gold	+ 145	+ 161	+ 184	+ 203	+ 204	+ 184	+ 142	+ 110	+ 96
Tourist and travel expenditures	+ 85	+ 70	+ 72	+ 58	+ 90	+ 55	+ 53	+ 61	+ 80
Interest and dividends	- 146	- 163	- 174	- 188	- 163	- 159	- 155	- 148	- 131
Freight and shipping	- 23	- 19	- 21	- 34	- 65	- 85	- 107	- 66	- 31
All other current transactions	47	- 57	- 45	- 42	- 29	+ 43	+ 149	- 238	+ 13
Total Current Account	+ 21	- 71	- 50	- 270	- 314	- 168	- 10	+ 139	+ 499
Special Gold Transactions(2)	-	-	+ 2	+ 248	-	+ 23	+ 143	+ 55	+ 33
Capital Account	- 148	- 59	- 53	+ 26	+ 312	+ 139	- 111	- 50	- 339
Mutual Aid	-	-	-	-	-	-	- 9	- 102	- 102
Contributions to UNRRA	-	-	-	-	-	-	- -	- 11	- 34
Military and Other Relief	-	-	-	-	-	- 2	- 6	- 13	- 67
Balancing Item (1)	(1)	(1)	(1)	- 4	+ 2	+ 8	- 7	- 18	+ 10
				+ 270	+ 314	+ 168	+ 10	- 139	- 499

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically. In the statements of transactions with Empire Countries and with Non Empire Countries it reflects multilateral settlements in the period before exchange control.

(2) This represents gold and United States dollars received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XII - Current Transactions Between Canada and the United States, 1937-1945

(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944	1945
A. CREDITS - WITH THE UNITED STATES									
Merchandise exports adjusted	391	268	344	424	566	911	1224	1444	1134
Net exports of non-monetary gold	145	161	184	203	204	184	142	110	96
Tourist and travel expenditures	149	134	137	98	107	79	87	117	163
Interest and dividends	31	25	27	29	39	43	34	42	44
Freight and shipping	45	39	46	49	64	92	137	146	134
All other current credits	42	36	42	31	65	152	274	176	169
Total Current Credits	803	663	780	834	1045	1461	1898	2035	1740
B. DEBITS - WITH THE UNITED STATES									
Merchandise imports adjusted	463	400	472	702	910	1116	1311	1113	1119
Tourist and travel expenditures	65	66	67	40	18	24	34	56	83
Interest and dividends	211	218	220	233	214	215	205	203	194
Freight and shipping	68	55	61	78	131	179	247	219	188
All other current debits	73	73	76	73	90	107	120	413	128
Total Current Debits	880	812	896	1126	1363	1641	1917	2004	1712
C. NET BALANCES - WITH THE UNITED STATES									
Merchandise trade adjusted	- 72	-132	-128	-278	-344	-205	- 87	+ 331	+ 15
Net exports of non-monetary gold	+145	+161	+184	+203	+204	+184	+142	+110	+ 96
Tourist and travel expenditures	+ 84	+ 68	+ 70	+ 58	+ 89	+ 55	+ 53	+ 61	+ 80
Interest and dividends	-180	-193	-193	-204	-175	-172	-171	-161	-150
Freight and shipping	- 23	- 16	- 15	- 29	- 67	- 87	-110	- 73	- 54
All other current transactions	- 31	- 37	- 34	- 42	- 25	+ 45	+154	- 237	+ 41
Total Current Account	- 77	-149	-116	-292	-318	-180	- 19	+ 31	+ 28

(1) Includes $280 million special payments to U. S. Treasury.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XIII - Current Transactions Between Canada and Other Foreign Countries, 1937-1945

(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944	1945
A. CREDITS - WITH OTHER FOREIGN COUNTRIES									
Merchandise exports adjusted	157	134	126	79	68	63	63	176	567
Tourist and travel expenditures	5	5	3	(1)	1	(1)	(1)	(1)	(1)
Interest and dividends	38	36	25	20	16	17	20	20	24
Freight and shipping	22	13	13	13	2	2	3	7	23
All other current credits	3	2	8	8	5	7	14	12	13
Total Current Credits	225	190	175	120	92	89	100	215	627
B. DEBITS - WITH OTHER FOREIGN COUNTRIES									
Merchandise imports adjusted	78	65	64	68	75	64	68	89	110
Tourist and travel expenditures	4	3	1	(1)	(1)	(1)	(1)	(1)	(1)
Interest and dividends	4	6	6	4	4	4	4	5	5
Freight and shipping	22	16	19	18	(2)	(2)	(2)	(2)	(2)
Canadian Overseas Expenditures	-	-	-	-	-	-	-	-	25
All other current debits	19	22	19	8	9	9	19	13	16
Total Current Debits	127	112	109	98	88	77	91	107	156
C. NET BALANCES - WITH OTHER FOREIGN COUNTRIES									
Merchandise trade adjusted	+ 79	+ 69	+ 62	+ 11	- 7	- 1	- 5	+ 87	+ 457
Tourist and travel expenditures	+ 1	+ 2	+ 2	-	+ 1	-	-	-	-
Interest and dividends	+ 34	+ 30	+ 19	+ 16	+12	+13	+ 16	+ 15	+ 19
Freight and shipping	-	- 3	- 6	- 5	+ 2	+ 2	+ 3	+ 7	+ 23
All other current transactions	- 16	- 20	- 11	-	- 4	- 2	- 5	- 1	- 28
Total Current Account	+ 98	+ 78	+ 66	+ 22	+ 4	+12	+ 9	+108	+ 471
Mutual Aid Included in Credits	-	-	-	-	-	-	9	102	102
Contribution to UNNRA	-	-	-	-	-	-	-	11	34
Military and other Relief	-	-	-	-	-	2	6	13	67
Export Credits and Advances	-	-	-	-	-	-	-	-	105

(1) Less than $500,000

(2) Included in amount shown for United States

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XIV - Preliminary Statement, 1945
(Millions of Canadian Dollars)

	Credits	Debits	Net
A. Canada and All Countries			
Current Account			
Merchandise trade adjusted	3,655	1,442	+ 2,213
Net exports of non-monetary gold	96	-	+ 96
Tourist and travel expenditures	165	85	+ 80
Interest and dividends	76	253	- 177
Freight and shipping	340	222	+ 118
All other current transactions	301	912	- 611
Total - Current Account	4,633	2,914	+ 1,719
Special U. S. Dollar transactions(2)	33	33	-
Capital Movements	533	1,222	- 689
Mutual Aid	-	940	- 940
Contribution to UNNRA	-	34	- 34
Military Relief	-	67	- 67
Balancing Item (1)	11	-	+ 11
	5,210	5,210	
B. Canada and Empire Countries			
Current Account			
Merchandise trade adjusted	1,954	213	+ 1,741
Tourist and travel expenditures	2	2	- -
Interest and dividends	8	54	- 46
Freight and shipping	183	34	+ 149
War Services	81	696	- 615
Other current transactions	38	47	- 9
Totals - Current Account			
United Kingdom	1,854	926	+ 928
Other Empire Countries	412	120	+ 292
All Empire Countries	2,266	1,046	+ 1,220
Special U. S. Dollar transactions (2)	-	33	- 33
Capital Movements	73	423	- 350
Mutual Aid	-	838	- 838
Balancing Item (1)	1	-	+ 1
	2,340	2,340	

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically.

(2) This represents United States dollars received from the U.K. in part settlement of her deficiency with Canada.

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XIV - Preliminary Statement, 1945 - Concluded
(Millions of Canadian Dollars)

	Credits	Debits	Net
C. Canada and Non-Empire Countries			
Current Account			
Merchandise trade adjusted	1,701	1,229	+ 472
Net exports of non-monetary gold	96	-	+ 96
Tourist and travel expenditures	163	83	+ 80
Interest and dividends	68	199	- 131
Freight and shipping	157	188	- 31
All Other current transactions	182	169	+ 13
Totals - Current Accounts-			
United States	1,740	1,712	+ 28
Other Foreign Countries	627	156	+ 471
All Non-Empire Countries	2,367	1,868	+ 499
Special U. S. Dollar transactions(2)	33	-	+ 33
Capital Movements	460	799	- 339
Mutual Aid	-	102	- 102
Contribution to UNNRA	-	34	- 34
Military Relief	-	67	- 67
Balancing Item (1)	10	-	+ 10
	2,870	2,870	

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically.

(2) This represents United States dollars received from the U.K. in part settlement of her deficiency with Canada.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XV - Special and Capital Transactions between Canada and Empire Countries, 1937 - 1945
(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944	1945
Capital Credits									
Decrease in £ balances	-	-	-	-	-	818	-	4	-
Repayments on 1942 Loan	-	-	-	-	-	-	18	57	64
Investment in production assets	-	-	-	100	157	58	-	-	-
Other credits	9	-	65	16	24	8	2	85	9
Total Credits (1)	9	(2)	65	116	181	884	20	146	73
Capital Debits									
Private transactions -									
Redemptions of securities	26	21	45	13	10	30	10	32	31
Repurchases of securities	+ 20	12	5	28	36	8	26	27	41
Other capital payments	27	20	23	70	28	21	35	24	25
Official transactions -									
Repatriation of securities	-	-	75	137	188	296	4	2	1
Repatriation of production Assets - Fixed capital	-	-	-	-	-	-	205	2	-
Working capital	-	-	-	-	-	-	190	-	-
Increase in £ balances	-	-	-	82	728	-	-	-	1
Special loan to United Kingdom -	-	-	-	-	-	700	-	-	-
Interim advances to United Kingdom	-	-	-	-	-	-	-	-	164
Interim advances to other countries	-	-	-	-	-	-	-	-	45
Special payments	-	-	-	-	-	74	116	57	115
Total debits as above (1)	33	53	148	330	990	1,129	586	144	423
Special Gold and United States Dollar Transactions	-	-	2	248	-	23	143	55	33
Billion Dollar Contribution	-	-	-	-	-	1,000	-	-	-
Mutual Aid	-	-	-	-	-	-	503	834	838

(1) For purposes of comparability net security transactions are shown. Consequently gross capital credits and debits in 1937, 1938 and 1939 are less than in Tables VII and VIII where gross sales and purchases of securities are included.

(2) Miscellaneous capital credits are netted in 1938.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XVI - Capital Transactions between Canada and non-Empire Countries, 1937 - 1945
(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944	1945
New issues of Canadian securities	86	38	155	-	-	-	146	92	91
Retirements of Canadian Securities	140	79	131	41	31	25	308	166	179
Net new issues (+) or Net retirements (-)	- 54	- 41	+ 24	- 41	- 31(2)	- 25(2)	-162	- 74	- 88
Net Sales (+) or Net Purchases (-) of Outstanding Securities									
Canadian Securities	- 18	+ 48	+ 69	+ 15	+ 46	+132	+254	+183	+300
United States and Foreign	- 7	- 7	+ 18	+ 18	+ 28	+ 24	+ 44	+ 42	+ 96
Net Change in Liquid Reserves of Gold or U. S. $ (Decline (+) Increase (-)	(3)	(3)	(3)	+ 79	+160	-144	-364	-278	-667
Export Credits and Interim Advances	-	-	-	-	-	-	-	-	-105
Other Capital Movements and Adjusting Entries (Net)	- 69	- 59	-164	- 45	+109	+152	+117	+ 77	+125
Gross Credits on Capital Account	504(1)	356(1)	461(1)	167	385	351	657	543	460
Gross Debits on Capital Account	652(1)	415(1)	514(1)	141	73	212	768	593	799
Net Capital Transactions	-148	- 59	- 53	+ 26	+312	+139	-111	- 50	-339
Mutual Aid	-	-	-	-	-	-	- 9	-102	-102
Contribution to UNNRA	-	-	-	-	-	-	-	- 11	- 34
Military and Other Relief	-	-	-	-	-	- 2	- 6	- 13	- 67
Special Gold Transactions	-	-	+ 2	+248	-	+ 23	+143	+ 55	+ 33

(1) Including offsetting security transactions amounting to 400 in 1937, 276 in 1938 and 203 in 1939. In the period of exchange control such transactions are omitted as purchases represent, in the main, switches of securities.
(2) Excluding refunding issues.
(3) Available data included in other capital movements.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XVII - Revised Statement of Capital Transactions between Canada and all Countries, 1927 - 1936

	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
New Issues of Canadian Securities sold outside Canada	301	207	297	400	200	104	134	111	117	106
Retirements of Canadian securities owned outside of Canada	160	200	150	110	202	105	166	169	256	270
Net new issues (-) or net retirements (-)	+141	+ 7	+147	+290	- 2	- 1	- 32	- 58	-139	-164
Net Sales of Outstanding Securities										
Estimated (1)	-171	-126	- 2	+ 56	+ 45	+ 85				
Recorded							+ 51	+ 9	+ 51	+ 8
Direct Investments Transactions (2)	+ 35	+ 21	+ 18	+ 37	+ 10	- 28	- 59	- 45	- 44	- 62
Insurance Transactions	- 15	- 12	+ 19	+ 9	+ 34	- 1	- 1	+ 3	- 18	- 26
Net Change in external assets of Canadian Banks	+ 16	+ 87	+ 88	-	+ 28	+ 38	+ 24	- 19	-	+ 3
Monetary Gold (net)	- 7	+ 49	+ 37	- 36	+ 33	+ 3	+ 6	- 4	- 2	-
Other Capital Movements	+ 11	+ 6	+ 4	- 19	+ 26	-	-	-	-	-
Net Movement of Capital	+ 10	+ 32	+311	+337	+174	+ 96	- 11	-114	-152	-241
Net Balance on Current account	- 10	- 32	-311	-337	-174	- 96	- 2	+ 68	+125	+244
Including Net Exports of Non-Monetary Gold Balancing Item (3)	-	-	-	-	-	-	+ 13	+ 46	+ 27	- 3

(1) The principal revisions of figures previously published occur in this item. As complete records coveving the international trade in securities are not available before 1933 these transactions are estimated as the difference between all other recorded capital movements and the net balance on current account for the years from 1927 to 1932.

(2) These figures have been revised by the transfer of some transactions formerly included in this item to the current account.

(3) This balancing item reflects possible errors and the omission of transactions which cannot be measured statistically. In the years 1927 to 1932 errors and omissions are reflected in the item "Estimated Net Sales of Outstanding Securities".

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XVIII - Capital Transactions between Canada and Other Countries, 1937 - 1945 (2)

	1937	1938	1939	1940	1941	1942	1943	1944	1945
Net retirements of Canadian securities held abroad including official repatriations									
In Foreign Countries	- 54	- 41	+ 24	- 41	- 31	- 25	-162	- 74	- 88
In Empire Countries	- 26	- 21	-120	-150	-198	-326	- 14	- 34	- 32
All Countries	- 80	- 62	- 96	-191	-229	-351	-176	-108	-120
Net sales of outstanding securities by Canada (+) or purchases (-)									
To or from Foreign Countries	- 25	+ 41	+ 87	+ 33	+ 74	+156	+298	+225	+396
To or from Empire Countries	+ 20	- 12	- 5	- 28	- 36	- 8	- 26	- 27	- 41
All Countries	- 5	+ 29	+ 82	+ 5	+ 38	+148	+272	+198	+355
Net Loans and advances by Canadian Government to Other Countries	-	-	-	-	-	-700	+ 18	+ 57	-250
Change in Liquid Reserves of Gold and United States Dollars (Increase (-)	(1)	(1)	(1)	+ 79	+160	-144	-364	-278	-667
Change in Sterling Balances (Increase (-)	(1)	(1)	(1)	- 82	-728	+818	-	-	- 1
Other Capital Movements	- 87	- 79	-122	+ 1	+262	+123	-427	+ 83	- 6
Net Movement of Capital	-172	-112	-136	-188	-497	-106	-677	- 48	-689
Mutual Aid & 1942 Contribution						-1,000	-512	-936	-940
Contributions to UNNRA, Military and other Official Relief						- 2	- 6	- 24	-101

(1) Not available

(2) For more detailed analysis see Tables XV and XVI.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XIX - Merchandise Trade Between Canada and Other Countries, 1933-1945.
(Exclusive of gold and adjusted for balance of payments purposes)

(Millions of Canadian Dollars)

		Empire			Non-Empire		
Credits from Exports	All Countries	Total	United Kingdom	Other Countries	Total	United States	Other Countries
1933	532	232	188	44	300	177	123
1934	648	299	234	65	349	226	123
1935	732	332	258	74	400	285	115
1936	954	427	342	85	527	369	158
1937	1,041	493	385	108	548	391	157
1938	844	442	337	105	402	268	134
1939	906	436	332	104	470	344	126
1940	1,202	699	542	157	503	424	79
1941	1,732	1,098	914	184	634	566	68
1942	2,515	1,541	1,424	117	974	911	63
1943	3,050	1,763	1,636	127	1,287	1,224	63
1944	3,590	1,970	1,796	174	1,620	1,444	176
1945	3,655	1,954	1,603	351	1,701	1,134	567
Debits for Imports							
1933	368	114	80	34	254	205	49
1934	484	146	103	43	338	278	60
1935	526	166	110	56	360	299	61
1936	612	185	120	65	427	352	75
1937	776	235	148	87	541	463	78
1938	649	184	119	65	465	400	65
1939	713	177	106	71	536	472	64
1940	1,006	236	133	103	770	702	68
1941	1,264	279	137	142	985	910	75
1942	1,406	226	116	110	1,180	1,116	64
1943	1,579	200	100	100	1,379	1,311	68
1944	1,398	196	94	102	1,202	1,113	89
1945	1,442	213	100	113	1,229	1,119	110
Net Credits (+) or Debits (-)							
1933	+ 164	+ 118	+ 108	+ 10	+ 46	- 28	+ 74
1934	+ 164	+ 153	+ 131	+ 22	+ 11	- 52	+ 63
1935	+ 206	+ 166	+ 148	+ 18	+ 40	- 14	+ 54
1936	+ 342	+ 242	+ 222	+ 20	+ 100	+ 17	+ 83
1937	+ 265	+ 258	+ 237	+ 21	+ 7	- 72	+ 79
1938	+ 195	+ 258	+ 218	+ 40	- 63	- 132	+ 69
1939	+ 193	+ 259	+ 226	+ 33	- 66	- 128	+ 62
1940	+ 196	+ 463	+ 409	+ 54	- 267	- 278	+ 11
1941	+ 468	+ 819	+ 777	+ 42	- 351	- 344	- 7
1942	+1,109	+1,315	+1,308	+ 7	- 206	- 205	- 1
1943	+1,471	+1,563	+1,536	+ 27	- 92	- 87	- 5
1944	+2,192	+1,774	+1,702	+ 72	+ 418	+ 331	+ 87
1945	+2,213	+1,741	+1,503	+ 238	+ 472	+ 15	+ 457

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XX - Revised Estimates of Tourist Expenditures Between Canada and Other Countries, 1937-1945
(Millions of Canadian Dollars)

Credits - Expenditures of Foreign Tourists in Canada	All Countries	Empire			Non-Empire		
		Total	United Kingdom	Other(1) Countries	Total	United States	Other Countries
1937	166	12	11	1	154	149	5
1938	149	10	8	2	139	134	5
1939							
1940	104	6	5	1	98	98	(2)
1941	111	3	2	1	108	107	1
1942	81	2	2	(2)	79	79	(2)
1943	88	1	1	(2)	87	87	(2)
1944	119	2	2	(2)	117	117	(2)
1945	165	2	2	(2)	163	163	(2)
Debits - Expenditures of Canadian Tourists Abroad							
1937	87	18	16	2	69	65	4
1938	86	17	15	2	69	66	3
1939							
1940	43	3	2	1	40	40	(2)
1941	21	3	2	1	18	18	(2)
1942	26	2	2	(2)	24	24	(2)
1943	36	2	2	(2)	34	34	(2)
1944	58	2	2	(2)	56	56	(2)
1945	85	2	2	(2)	83	83	(2)
Net Credits (+) or Net Debits (-)							
1937	+ 79	- 6	- 5	- 1	+ 85	+ 84	+ 1
1938	+ 63	- 7	- 7	-	+ 70	+ 68	+ 2
1939							
1940	+ 61	+ 3	+ 3	-	+ 58	+ 58	-
1941	+ 90	-	-	-	+ 90	+ 89	+ 1
1942	+ 55	-	-	-	+ 55	+ 55	-
1943	+ 52	- 1	- 1	-	+ 53	+ 53	-
1944	+ 53	-	-	-	+ 61	+ 61	-
1945	+ 80	-	-	-	+ 80	+ 80	-

(1) Excluding Newfoundland

(2) Less than $500,000.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XXI - Estimated Distribution of Interest and Dividend Payments and Receipts Between Canada and Other Countries, 1937-1945

(Millions of Canadian Dollars)

		Empire			Non-Empire		
	All Countries	Total	United Kingdom	Other Countries	Total	United States	Other Countries
Credits - Receipts of Interest & Dividends from Investments abroad							
1937	76	7	2	5	69	31	38
1938	66	5	2	3	61	25	36
1939							
1940	52	3	2	1	49	29	20
1941	60	5	4	1	55	39	16
1942	67	7	5	2	60	43	17
1943	59	5	4	1	54	34	20
1944	71	9	8	1	62	42	20
1945	76	8	4	4	68	44	24
Debits - Payments of Interest and Dividends to Non-Residents							
1937	302	87	85	2	215	211	4
1938	307	83	81	2	224	218	6
1939							
1940	313	76	74	2	237	233	4
1941	286	68	66	2	218	214	4
1942	270	51	50	1	219	215	4
1943	261	52	51	1	209	205	4
1944	264	56	55	1	208	203	5
1945	253	54	53	1	199	194	5
Net Credits (+) or Debits (-)							
1937	- 226	- 80	- 83	+ 3	- 146	- 180	+ 34
1938	- 241	- 78	- 79	+ 1	- 163	- 193	+ 30
1939							
1940	- 261	- 73	- 72	- 1	- 188	- 204	+ 16
1941	- 226	- 63	- 62	- 1	- 163	- 175	+ 12
1942	- 203	- 44	- 45	+ 1	- 159	- 172	+ 13
1943	- 202	- 47	- 47	-	- 155	- 171	+ 16
1944	- 193	- 47	- 47	-	- 146	- 161	+ 15
1945	- 177	- 46	- 49	+ 3	- 131	- 150	+ 19

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XXII

BRITISH AND FOREIGN CAPITAL INVESTED IN CANADA

As at December 31, Representative Years, 1926-1945

Classification by Types of Investment

A. Total Non-Resident Investment in Canada
(Millions of Dollars)

Types of Investment	1926	1930	1933	1939	1945
Government Securities					
Dominion	638.0	682.0	751.9	823.0	726.0
Provincial	421.6	592.3	571.7	536.0	619.0
Municipal	374.1	431.5	394.4	344.0	312.0
Total	1,433.7	1,705.8	1,718.0	1,703.0	1,657.0
Public Utilities					
Railways	1,938.4	2,244.3	2,244.7	1,870.6	1,601.0
Other	394.5	633.4	625.4	549.4	495.0
Total	2,332.9	2,877.7	2,870.1	2,420.0	2,096.0
Manufacturing	1,198.3	1,573.0	1,421.6	1,445.2	1,816.0
Mining and Smelting	219.1	334.1	338.5	329.1	400.0
Merchandising	149.8	202.9	191.5	189.3	227.0
Financial Institutions	343.6	542.9	479.6	472.7	546.0
Other Enterprises	65.2	82.4	75.2	69.0	69.0
Miscellaneous Assets	260.0	295.0	270.0	285.0	284.0
Total Investment	6,002.6	7,613.8	7,364.5	6,913.3	7,095.0

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XXIII

BRITISH AND FOREIGN CAPITAL INVESTED IN CANADA

As at December 31, Representative Years, 1926-1945

Classification by Types of Investment

B. Investments held in the United Kingdom
(Millions of Dollars)

Types of Investment	1926	1930	1933	1939	1945 (1)
Government Securities					
Dominion	250.1	234.5	291.4	238.0	—
Provincial	72.6	69.3	74.2	58.0	40.0
Municipal	187.0	182.1	143.9	157.0	112.0
Total	509.7	485.9	509. 5	453.0	152.0
Public Utilities					
Railways	1,371.0	1,351.7	1,353.8	1,215.3	809.0
Other	96.6	99.7	87.7	89.3	93.0
Total	1,467.6	1,451.4	1,441.5	1,304.6	902.0
Manufacturing	234.4	274.7	236.3	257.3	297.0
Mining and Smelting	50.9	73.8	72.1	61.4	63.0
Merchandising	49.2	61.6	56.5	54.9	57.0
Financial Institutions	175.5	242.7	213.0	220.9	205.0
Other Enterprises	4.0	5.2	3.9	3.8	5.0
Miscellaneous Assets	145.0	171.0	150.0	120.0	85.0
Total Investment	2,636.3	2,766.3	2,682.8	2,475.9	1,766.0

(1) Subject to revision.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XXIV

BRITISH AND FOREIGN CAPITAL INVESTED IN CANADA

As at December 31, Representative Years, 1926-1945

Classification by Types of Investment

C. Investments held in the United States
(Millions of Dollars)

Types of Investment	1926	1930	1933	1939	1945 (1)
Government Securities					
Dominion	381.9	440.5	450.5	567.0	682.0
Provincial	342.0	517.0	492.5	473.0	574.0
Municipal	185.1	247.4	248.5	181.0	194.0
Total	909.0	1,204.9	1,191.5	1,221.0	1,450.0
Public Utilities					
Railways	510.4	832.6	830.9	588.3	720.0
Other	289.9	521.7	524.7	432.1	373.0
Total	800.3	1,354.3	1,355.6	1,020.4	1,093.0
Manufacturing	952.9	1,286.3	1,172.3	1,159.9	1,479.0
Mining and Smelting	165.2	255.3	260.4	250.7	318.0
Merchandising	98.6	137.3	131.0	129.4	165.0
Financial Institutions	125.1	251.2	220.6	200.8	285.0
Other Enterprises	60.2	76.2	70.3	64.2	62.0
Miscellaneous Assets	85.0	94.0	90.0	105.0	130.0
Total Investment	3,196.3	4,659.5	4,491.7	4,151.4	4,982.0

(1) Subject to revision.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XXV

BRITISH AND FOREIGN CAPITAL INVESTED IN CANADA

As at December 31, Representative Years, 1926-1945

Classification by Types of Investment

D. Investments held in All Other Countries
(Millions of Dollars)

Types of Investment	1926	1930	1933	1939	1945 (1)
Government Securities					
Dominion	6.0	7.0	10.0	18.0	44.0
Provincial	7.0	6.0	5.0	5.0	5.0
Municipal	2.0	2.0	2.0	6.0	6.0
Total	15.0	15.0	17.0	29.0	55.0
Public Utilities					
Railways	57.0	60.0	60.0	67.0	72.0
Other	8.0	12.0	13.0	28.0	29.0
Total	65.0	72.0	73.0	95.0	101.0
Manufacturing	11.0	12.0	13.0	28.0	40.0
Mining and Smelting	3.0	5.0	6.0	17.0	19.0
Merchandising	2.0	4.0	4.0	5.0	5.0
Financial Institutions	43.0	49.0	46.0	51.0	56.0
Other Enterprises	1.0	1.0	1.0	1.0	2.0
Miscellaneous Assets	30.0	30.0	30.0	60.0	69.0
Total Investment	170.0	188.0	190.0	286.0	347.0

(1) Subject to revision.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XXVI

Estimated British and Foreign Capital Invested in Canada, by Types of Investment, December 31, 1945 (1)

(Millions of Dollars)

Type of Investment	Estimated Distribution of Ownership			Total Investments Owned Outside Canada
	United States (2)	British (3)	Other Countries	
Government Securities				
Dominion	682.	-	44.	726.
Provincial	574.	40.	5.	619.
Municipal	194.	112.	6.	312.
Total	1,450.	152.	55.	1,657.
Public Utilities				
Railways	720.	809.	72.	1,601.
Other	373.	93.	29.	495.
Total	1,093.	902.	101.	2,096.
Manufacturing	1,479.	297.	40.	1,816.
Mining and Smelting	318.	63.	19.	400.
Merchandising	165.	57.	5.	227.
Financial Institutions	285.	205.	56.	546.
Other Enterprises	62.	5.	2.	69.
Miscellaneous Assets	130.	85.	69.	284.
Total Investment	4,982.	1,766.	347.	7,095.

(1) Subject to revision.

(2) (3) Includes some investments held in the United States and the United Kingdom for residents of other countries.

N.B. Common and preference stocks are shown at book values as shown in the balance sheets of the issuing companies, bonds and debentures are valued at par, liabilities in foreign currencies being converted into Canadian dollars at the par of exchange.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XXVII

BRITISH AND FOREIGN CAPITAL INVESTED IN CANADA, END OF 1945

Classification by Countries of Origin and by Types of Security
(Millions of Dollars)

Types of Security	United States (1)	United Kingdom (2)	Other Foreign Countries	Total Non-Resident Investment
Bonds and Debentures				
Dominion	682	-	44	726
Provincial	574	40	5	619
Municipal	194	112	6	312
Steam Railways	495	316	32	843
Other Corporations - controlled in Canada	158	46	16	220
Other Corporations - controlled outside of Canada	254	74	19	347
Total	2,357	588	122	3,067
Capital Stock of Canadian Companies				
Companies controlled in Canada	460	688	96	1,244
Companies controlled in the United States	1,610	57	16	1,683
Companies controlled in the United Kingdom	13	226	2	241
Companies controlled in Other Foreign Countries	-	-	19	19
Total	2,083	971	133	3,187
Other Corporation Assets				
Companies controlled in Canada	10	3	1	14
Companies controlled in the United States	401	-	-	401
Companies controlled in the United Kingdom	-	119	-	119
Companies controlled in Other Foreign Countries	1	-	22	23
Total	412	122	23	557
Miscellaneous Investments				
Real estate, mortgages, assets administered for non-residents, investment companies, etc.	130	85	69	284
Total	4,982	1,766	347	7,095

(1) - (2) Includes some investments held by nominees in the United Kingdom and the United States for residents of other countries.

ESTIMATED CANADIAN INVESTMENTS ABROAD

Table XXVIII

(Excluding investments of insurance companies, banks, government credits and liquid reserves)

(In Millions of Canadian Dollars)

A. Value of Investments, end of 1939 (Revised)

Location of Investment	Direct Investments	Portfolio Investments			Total Investment
		Stocks	Bonds	Total	
United States	412	380	121	501	913
United Kingdom	59	22	21	43	102
Other Empire Countries	54	7	15	22	76
Other Foreign Countries	146	102	51	153	299
Total	671	511	208	719	1,390

B. Value of Investments, end of 1945 (x)

Location of Investment	Direct Investments	Portfolio Investments			Total Investment
		Stocks	Bonds	Total	
United States	455	317	92	409	864
United Kingdom	54	26	27	53	107
Other Empire Countries	69	7	12	19	88
Other Foreign Countries	142	104	36	140	282
Total	720	454	167	621	1,341

N.B. Holdings of stocks are at book values as shown in the books of issuing companies; and holdings of bonds are shown at par values. Foreign currencies were converted into Canadian dollars at current market rates.

(x) Subject to revision.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XXIX

NET NATIONAL INCOME AND GROSS NATIONAL PRODUCT[x] AND THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS
(Millions of dollars)

	1938	1939	1940	1941	1942	1943	1944	1945 (1)
Absolute								
1. Net National Income at Factor Cost	3,940	4,221	5,112	6,514	8,277	9,069	9,685	9,627
Exports	844	906	1,202	1,732	2,515	3,050	3,583	3,652
Exports & gold	1,005	1,090	1,405	1,936	2,699	3,192	3,693	3,748
Gross Current Credits	1,361	1,457	1,776	2,458	3,376	4,064	4,536	4,496
Imports	649	713	1,006	1,064	1,406	1,579	1,398	1,441
Gross Current Debits	1,261	1,331	1,627	1,967	2,275	2,858	3,539	2,854
2. Gross National Product at Market Prices	5,075	5,495	6,628	8,335	10,296	11,124	11,771	11,359
Exports	844	906	1,202	1,732	2,515	3,050	3,583	3,652
Exports & gold	1,005	1,090	1,405	1,936	2,699	3,192	3,693	3,748
Gross Current Credits	1,361	1,457	1,776	2,458	3,376	4,064	4,536	4,496
Imports	649	713	1,006	1,064	1,406	1,579	1,398	1,441
Gross Current Debits	1,261	1,331	1,627	1,967	2,275	2,858	3,539	2,854
Percentage								
1. Net National Income at Factor Cost								
Exports	21.4	21.5	23.5	26.6	30.4	33.6	37.0	37.9
Exports & gold	25.5	25.0	27.5	29.7	32.6	35.2	38.1	38.9
Gross Current Credits	34.5	34.5	34.7	37.7	40.8	44.8	46.8	46.7
Imports	16.5	16.9	19.7	16.3	17.0	17.4	14.4	15.0
Gross Current Debits	32.0	31.5	31.8	30.1	27.5	31.5	36.5	29.6
2. Gross National Product at Market Prices								
Exports	16.6	16.5	18.1	20.8	24.4	27.4	30.4	32.2
Exports & gold	19.8	19.8	21.2	23.2	26.2	28.7	31.4	33.0
Gross Current Credits	26.8	26.5	26.8	29.5	32.8	36.5	38.5	39.6
Imports	12.8	13.0	15.2	12.8	13.7	14.2	11.9	12.7
Gross Current Debits	24.8	24.2	24.5	23.6	22.1	25.7	30.1	25.1

(1) Subject to revision. x.-"National Accounts - Income & Expenditure, 1938-1945".- D.B.S.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XXX

NUMBER OF CANADIAN BRANCHES AND SUBSIDIARY COMPANIES IN CANADA CONTROLLED IN OTHER COUNTRIES, 1944 (1)

	Controlled in	
	United States	Great Britain and Elsewhere Outside of Canada
Manufacturing	989	149
Mining	80	12
Utilities	107	7
Merchandising	403	163
Financial	261	172
Miscellaneous	148	24
TOTAL	1,988	527

(1) Excluding some small branches in which the investment in Canada is relatively small.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1946

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DEPARTMENT OF TRADE AND COMMERCE
DOMINION BUREAU OF STATISTICS - CANADA
INTERNATIONAL PAYMENTS BRANCH

Dominion Statistician: Herbert Marshall
Chief, International Payments Branch: C. D. Blyth

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Canada's commercial transactions with Britain and other overseas countries on the one hand, and with the United States on the other hand, have been sharply delineated for a period of years. A surplus of Canadian exports over imports and other payments to overseas countries and an excess of imports and other current payments by Canada to the United States were characteristic of the Canadian balance of payments before the war. During the war these characteristics were accentuated by the concentration on production in Canada for use overseas and the limited sources of supply outside of North America during the period. Since the war, the financial transactions arising out of the predominant commodity movements in Canadian trade are having important effects upon Canada's international investment position.

The characteristics of the Canadian balance of payments during the first transitional postwar year are revealed in the statement for 1946. There was a balance of credits on current account of $458 million of which official contributions of relief constituted $107 million, leaving a net credit balance of $551 million exclusive of relief. This balance of credits compares with $1,723 million in 1945 when Mutual Aid of $1,041 million was the principal method of financing exports, and an average annual credit balance of $155 million in the five years immediately before the war. The outstanding features of the statement for 1946 were the large credit balances with overseas countries largely financed by export credits and official contributions, and the sudden reappearance of a large current account deficit with the United States.

The value of exports to Britain, Europe and other overseas countries in 1946 was greater than in any previous peacetime year. The credit balance arising from Canadian transactions with overseas countries was also affected by the relatively small volume of commodities being sold to Canada by the United Kingdom and other countries receiving export credits from Canada. The consequent record peacetime disequilibrium in the balance of payments between Canada and the sterling area and the countries receiving export credits was financed by drawings of $540 million on the United Kingdom loan, $210 million by net advances to other countries receiving export credits, and $112 million by net interim advances to the United Kingdom and other Empire countries prior to the new loans which were later cancelled in the Financial Settlement in March with the United Kingdom. There were also official contributions of relief to overseas countries of $107 million.

BALANCE ON CURRENT ACCOUNT BETWEEN CANADA AND OTHER COUNTRIES, 1946

(Millions of dollars)

Geographical Distribution -	
Balance with United Kingdom	+ 495
Balance with Other Sterling Area	+ 167
Balance with Other Overseas Countries	+ 399
Balance with United States	- 603
Balance of Credits with All Countries	+ 458

BALANCE ON CURRENT ACCOUNT
BETWEEN CANADA AND OTHER COUNTRIES, 1946 - Concluded.

(Millions of dollars)

Financing of Above Current Balances

Canadian Contribution to UNRRA	-	68
Military Relief	-	14
Mutual Aid	-	25
Total Official Contributions	-	107
Loan to the United Kingdom	-	540
Exports Credits and Advances to Foreign Countries	-	210
Interim Advances to Empire Countries	-	112(1)
Government Credits Financing Exports	-	862
Financial Settlement by the United Kingdom (net)	+	150
Repayments on 1942 loan to the United Kingdom	+	89
Repayments on Wheat Loan to USSR	+	5
Reduction in Official Reserves	+	251(2)
Repurchases of Securities from Sterling Area	-	135
Other Capital Transactions with Sterling Area	+	41
Other Capital Inflows from U. S. Dollar Area (including exchange adjustments and errors and omissions	+	110
	-	458

(1) Most of these advances were written off in the March Financial Settlement with the United Kingdom.

(2) Canadian dollar equivalent of the reduction of $263 mm US.

But, accompanying the large volume of exports overseas financed by the Canadian government was an adverse current balance of payments with the United States of record size. The net current deficit with the United States of $603 million was much larger than in any other year in Canada's history, comparing with $318 million in 1941, $437 million in 1929 and $149 million in 1938. The heavy Canadian expenditures in the United States reflected in this deficit can not be disassociated from the record peacetime level of the national income of Canada arising from heavy internal investments, government financing of large exports to overseas countries, and other government expenditures, and large consumer demands. Many of these various demands have been augmented by postponements and depreciation during the wartime period. The abnormally high level of prices in the United States also had very significant effects upon the size of Canadian expenditures there.

This wide disequilibrium in Canada's accounts with overseas countries and the United States has an important financial significance since the deficiency of overseas countries in Canada is being financed by the Canadian government while the Canadian deficiency in the United States arises from cash trade and must be met by using official reserves of gold and U.S. dollars or by other capital inflows from the United States, in so far as the amount of convertible exchange received by Canada from overseas countries falls short of covering the deficit. Before the war when sterling and other European currencies were freely convertible into U.S. dollars, Canada's current receipts were more than adequate to meet the relatively small current deficiency in the United States during that period. In many years immediately before the war Canada was able to export capital mainly for the purpose of reducing indebtedness in the United States.

While Canada has been an exporter of capital in each year since 1934, it is important to recognize that Canada is still a debtor nation in so far as its international investment position is concerned. Exports of capital before the war had the effect mainly of reducing some of Canada's large indebtedness to the United States although there was some growth in Canadian assets abroad as well as the reduction in Canadian liabilities. During the war the total of foreign-owned investments in Canada increased slightly in value, non-resident investments having a value of $7,095 million at the end of 1945 compared with $6,913.3 million at the end of 1939. Important changes in ownership of the investments occurred as British investments in Canada sharply declined while United States and other foreign investments increased. During the wartime period there was a very large increase in Canadian assets abroad. These assets, including short term liquid assets in the United States and holdings of gold, increased from $1,865 million in 1939 to $3,715 million in 1945. The major part of the increase during the war occurred in official liquid reserves. The other principal increase occurred in the growth in Canadian government loans to overseas governments which at the end of 1945 amounted to $707 million. Privately-owned Canadian investments abroad during the war declined due to liquidations in Canadian holdings of U.S. securities. The net indebtedness of Canada to all other countries amounted to about $3¾ billion at the end of 1945 after all gross liabilities and assets are taken into account.

Changes in Canada's international financial position in 1946 were varied. While there was a very sharp net increase, about $656 million,* in the outstanding amount of Canadian government loans to other governments there was at the same time a decline in Canada's official liquid U.S. dollar reserves, and other capital inflows from the United States which had the effect of increasing Canadian liabilities in the United States and reducing privately-owned assets as well as official balances there. The net export of capital from Canada to all countries of about $351 million, therefore, reduced Canada's balance of indebtedness to other countries by a smaller amount than the large exports of capital to overseas countries as the Canadian participation in large loans to European governments for reconstruction has been made at a time when the net indebtedness of Canada to the United States was increasing. The large current deficit which Canada has with the United States has been affected to an important extent by the high incomes in Canada arising from the high volume of export trade maintained by loans extended by the Canadian government to assist the British and European governments during the transitional years.

The balance of Canadian indebtedness to other countries at the end of 1946 was probably not far from $3½ billion, although all of the factors affecting the value of private investments at that date have not yet been measured. The balance of Canadian indebtedness to the United States increased appreciably, while there was a sharp reduction in the balance of indebtedness to the United Kingdom, and a large gain in the net creditor position which Canada now has with foreign overseas countries.

The loan of $1,250 million to the United Kingdom, and other export credit loans authorized by Canada, which at the end of 1946 totalled close to $600 million, result from the Canadian recognition of the need for the recovery of overseas economies whose prosperity is of vital importance to Canada. This springs from the economic interdependence of the world and the special interest which a major trading

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* Exclusive of interim advances to Empire countries and amounts owing under Air Training Plan Agreements which were cancelled in the Settlements in March 1946.

nation like Canada has in the restoration of a world economy. The predominant structure of the Canadian balance of payments with its large export surpluses with overseas countries, and the customary dependence upon United States sources of supply for many commodities, and the balance of Canadian indebtedness to the United States points to the necessity of the restoration of overseas economies if traditional trading relationships are to continue. General exchange convertibility and increased production abroad are necessary so that overseas nations will again be able to pay for their imports with exports or other current revenue unimpeded by the exchange obstacles which arise from the distorted commodity movements now resulting from abnormal supply situations. The Canadian export credit arrangements and participation in the new international institutions like the International Monetary Fund and the International Bank are the principal contributions by Canada to the restoration of a world economy. Credit measures of the kind already extended are, of course, a temporary method of bridging the transitional period of reconversion until there is a restoration of more normal relations. It is doubtful if it would be possible for a country in Canada's position to continue for long to extend large amounts of credit for financing exports overseas if there also continued to be a very wide disequilibrium in Canada's current account with the United States which could not be financed out of current income from overseas and which, therefore, increased the balance of Canadian indebtedness to the United States unduly.

TRANSACTIONS WITH THE STERLING AREA

The chief feature about Canada's transactions with the sterling area during the past seven years since the start of the war has been the unprecedented size of the disequilibrium in the current account arising out of the predominent movement of commodities from Canada to the United Kingdom and other Empire destinations. The resulting British shortage of Canadian dollars has given rise to the necessity of providing special means of financing the gap between British expenditures in Canada and British income from Canada which are discussed further below.

CURRENT TRANSACTIONS IN GOODS AND SERVICES
BETWEEN CANADA AND EMPIRE COUNTRIES(1)
1937 - 1946

(Millions of dollars)

Year	Current Receipts by Canada	Current Payments by Canada	Net Balance on Current Account	Mutual Aid and Contribution to Empire Countries	Net Balance Excluding Mutual Aid
1937	565	406	+ 159	-	+ 159
1938	508	337	+ 171	-	+ 171
1939	502	326	+ 176	-	+ 176
1940	822	403	+ 419	-	+ 419
1941	1,321	516	+ 805	-	+ 805
1942	1,826	557	+ 1,269	1,000	+ 269
1943	2,066	850	+ 1,216	503	+ 713
1944	2,307	1,428	+ 879	834	+ 45
1945	2,266	1,046	+ 1,220	838	+ 382
1946(2)	1,134	472	+ 662	5	+ 657

(1) During the period 1939 - 1946 the sterling area is covered.

(2) Subject to revision.

During the war normal British needs for Canadian food and raw materials were augmented by the absence of other sources of supply, by shipping considerations, and by the heavy movement overseas of munitions, ships and military equipment produced in Canada on British account for use in the war. While many of the abnormal commodity movements like shipments of munitions naturally ceased at the end of the war there nevertheless remained unusual British demands for Canadian food and certain raw materials. Consequently exports from Canada to the United Kingdom reached a peacetime record in 1946, even though they were much less in total than the peak wartime movements. While most of the commodities exported to the United Kingdom in 1946 had also been sold in that market before the war, British requirements in recent years were greater than prewar for such important staples as wheat, flour, bacon, cheese, woodpulp, veneers and plywoods, and aluminum. While exports of some of these commodities were less in 1946 than in 1945 this was mainly due to reduced production and transportation limitations. Other commodities like eggs and beef which formerly had been relatively small were important components of exports in 1946. Other materials, of which examples are lumber, and base metals like copper, nickel, lead and zinc were shipped in large amounts to Britain although in less volume than before the war. Exports of some other commodities like certain manufactured goods were with a few exceptions generally small although British quotas provided for some token shipments, so that contact with traditional markets in Britain might be maintained by Canadian manufacturers. Higher prices over prewar as well as increased volume added to the total value of exports in 1946. The value of Canadian exports to the United Kingdom in 1946 amounted to $626 million compared with a peak of $1,796 million of exports on British account in 1944 and $385 million exported to the United Kingdom in 1937.

CURRENT TRANSACTIONS IN GOODS AND SERVICES
BETWEEN CANADA AND THE STERLING AREA - 1946

(Millions of dollars)

	United Kingdom	Other Sterling Area	Total Sterling Area
Current Receipts	834	300	1,134
Current Payments	339	133	472
Net Balance on Current Account ..	+ 495	+ 167	+ 662

Methods of Financing the above current deficiency of the Sterling Area in Canada:

Loan to the United Kingdom	- 540
Net interim advances (1)	- 112
British Financial Settlement with Canada	+ 150
Sale of gold to Canada	- 150
Repayments in 1942 Loan to United Kingdom	+ 89
Mutual Aid	- 5
Repatriations of securities	- 135
Disaccumulation of sterling balances	+ 15
Other capital transactions (including errors and omissions)	+ 26

(1) Most of these advances were written off in the March Financial Settlement with the United Kingdom.

But since 1946 was a year of reconversion for the British economy, commodities available in Britain for export were limited by prevailing shortages of fuel, materials and manpower, and by internal requirements. The volume of British exports increased substantially during the year, however, rising from about one-third of the exports in 1938 at the end of the war, to from 110 to 115 per cent of the volume of exports in 1938 by the end of 1946. But there was not a corresponding rise in British exports to Canada as most of the increase occurred in commodities which do not normally enter substantially into the British trade with Canada. Exports of many commodities which before the war made up a large part of British exports to Canada like coal, cotton textiles, and to a less extent woollen textiles, did not recover to the same extent as British exports generally. The result was that Canadian imports from the United Kingdom which were valued at $138 million in 1946 represented a considerably smaller volume than imports before the war which were as high as $148 million in 1937 at a time when prices were much lower than in 1946.

The non-commodity items of trade between Canada and the United Kingdom only added a small amount to the current disequilibrium as there continued to be appreciable Canadian government expenditures in Britain during the early part of the year on account of the Canadian forces overseas. These expenditures amounted to $73 million during the year, compared with $696 million in 1945. They included pay and allowances of Canadian service personnel still overseas, some transportation and other maintenance expenses. But, by the end of the year expenditures of this kind became relatively small. Most important among the other current payments to the United Kingdom were interest and dividend payments of $54 million paid to British investors, an amount which has been sharply reduced by wartime repatriations of securities from the prewar total payments which in 1937 were $85 million. While there were payments to Britain for freight and shipping services, these were much less than British expenditures on these services in Canada. Heavy outlays on inland freight in Canada on the large volume of exports was one of the contributing factors as well as the number of Canadian ships in trans-Atlantic services and the port expenditures of British ships in Canada. British expenditures on war services in Canada declined sharply from $65 million in 1945 to $18 million in 1946 as special activities were terminated. Prominent among other current receipts from Britain were such unilateral transactions as inheritances and immigrant funds. These were outflows which formerly had been curtailed by British exchange restrictions. There also were considerable amounts of funds returned to Canada by Canadian service personnel. Civilian travel between Canada and the United Kingdom continued to be sub-normal although there was a considerable increase in the amount during the year. There was a small balance of Canadian receipts on travel account in 1946 compared with appreciable debit balances before the war when there was a large amount of pleasure travel from Canada to Britain. Miscellaneous exchanges of other normal services between Canada and the United Kingdom resulted in the customarily moderate balance of payments by Canada on their account. As a result of all current exchanges of commodities and services between Canada and the United Kingdom in 1946 there was a credit balance of $495 million compared with one of the $928 million in 1945 and $135 million in 1937.

CANADIAN TRADE WITH EMPIRE COUNTRIES OTHER THAN THE UNITED KINGDOM AND NEWFOUNDLAND BY PRINCIPAL GROUPS OF COMMODITIES - 1946

(Millions of dollars)

	Exports of Canadian Produce	Imports into Canada
Agricultural and Vegetable Products ..	82.1	61.6
Animal and Animal Products	20.9	11.7
Fibres, Textiles and Textile Products .	18.1	40.1
Wood, Wood Products and Paper	55.9	0.4
Iron and Its Products	58.0	0.2
Non-ferrous Metals and Products	11.3	10.6
Non-metallic Minerals and Products ..	2.9	3.1
Chemicals and Allied Products	9.6	0.5
Miscellaneous Products	10.1	1.5
Total	268.9	129.7

N.B. Above figures are not adjusted for balance of payments purposes.

Trade between Canada and the other Empire countries customarily results in a credit balance as well, further increasing the shortage of Canadian dollars in the whole sterling area. This trade also is now much larger than before the war and the disequilibrium in the current account with these countries in 1946 was $167 million compared with $24 million in 1937 and $44 million in 1938. While this credit balance in 1946 was less than the record $292 million in 1945 it reflects civilian trade, whereas in the earlier year munitions financed by Mutual Aid and special orders of railway equipment to India financed by the Canadian government advances made up much of the total. The gain in exports to British South Africa in 1946 was particularly notable, there being an export balance of $60.7 million to that country. There were also export balances to each of the other British Dominions. Exports to India were at a peacetime peak and produced a substantial export balance in comparison with import balances before the war. But, exports to Australia and New Zealand were not much higher than prewar and the export balances with these countries were less than in some prewar years. There was also a growing export balance with the British West Indies, new peaks being reached by both export and import trade with this area, however, there were moderate import balances with some of the other Crown Colonies supplying tropical commodities to Canada. The peacetime peak in exports to Empire countries other than the United Kingdom must, of course, be associated with the world-wide shortage of commodities. Exports of many commodities have increased very sharply from prewar levels, particularly food and wood products. On the other hand, there are other commodities like motor trucks which formerly constituted an important part of the Canadian trade with the rest of the Empire which were held down by the shortage of supply in 1946. Canadian imports from this area retained much the same pattern as prewar. Tropical agricultural products and wool and jute have customarily made up the major part of the total and certain ores and minerals are increasing in importance. A large part of the increase in the total value of imports comes from higher prices. The principal service transactions between Canada and other Empire countries are the inland and ocean freight earned on exports from Canada to this area. Credits on this account were much heavier than in any prewar year and reflect partly the larger volume of exports and partly the greater number of Canadian operated ships on Empire services. Canada also has a small balance on income account arising mainly from direct investments in the British Dominions. Other exchange of services are relatively small.

COMMODITY TRADE BETWEEN CANADA AND OTHER EMPIRE COUNTRIES EXCLUDING THE UNITED KINGDOM AND NEWFOUNDLAND, 1937 AND 1946

(Millions of dollars)

	1937			1946		
	Exports	Imports	Net	Exports	Imports	Net
Australia	30.6	12.1	+ 18.5	38.2	19.8	+ 18.4
British South Africa ..	16.6	8.2	+ 8.4	68.6	7.9	+ 60.7
Eire	4.4	-	+ 4.4	8.0	-	+ 8.0
India	4.7	9.5	- 4.8	49.1	27.9	+ 21.2
New Zealand	14.7	7.6	+ 7.1	16.1	12.0	+ 4.1
British Guiana	1.5	5.6	- 4.1	7.1	12.2	- 5.1
British West Indies ..	11.5	12.2	- 0.7	50.2	22.1	+ 28.1
All other (excluding Newfoundland)	11.0	31.6	- 20.6	31.7	27.9	+ 3.8
Sub-Total	95.0	86.8	+ 8.2	269.0	129.8	+139.2
Newfoundland	9.1	2.5	+ 6.6	38.2	9.3	+ 28.9

N.B. Above figures are not adjusted for balance of payments purposes.

As has already been pointed out the existence of large credit balances with countries of the sterling area has not for a period of years provided Canada with income which could be freely converted into U.S. dollars. Sterling ceased to be convertible at the start of the war when British exchange control was introduced because of the British deficiency of dollar exchange. Since then only a minor part of the British current deficit in Canada has been settled by special transfers of gold or U.S. dollars.

The principal wartime method of financing the gap arising from the excess of British expenditures in Canada over receipts was by Mutual Aid to the countries of the sterling area. This aid, including the contribution of $1 billion by the Canadian government to the United Kingdom in 1942, has totalled about $3,180 million. Prominent among other wartime methods of financing the sterling area deficiency were official repatriations of $703 million, private repatriations of Canadian securities held in the United Kingdom of about $342 million and the loan of $700 million to the United Kingdom in 1942. This loan resulted from the conversion of the larger part of approximately $1,000 million which the Foreign Exchange Control Board was holding in sterling balances which had been accumulated in the earlier years of the war by the Board as a means of providing the United Kingdom with Canadian dollars. About $300 million of the balances held at the same time was used by the Government for the final official repatriation of Canadian securities, the total of which is referred to above. Further details on wartime methods of financing are shown in Table XV.

Following the end of the war it became necessary for new sources of funds to be made available to the United Kingdom in order that the necessary shipments of food and raw materials and other commodities should be able to continue. The loan of $1,250 million to the United Kingdom arising out of the Financial Agreement between Canada and the United Kingdom signed at Ottawa, March 6, 1946 and approved by the Canadian Parliament in May of the same year, was the principal postwar means of facilitating purchases by the United Kingdom of goods and services in Canada, by making it possible for the United Kingdom to meet transitional postwar deficits in its current balance of payments.

Between the end of Mutual Aid and the first use in May of the new loan to the United Kingdom, the principal means of financing was by interim advances by the Canadian government, covering mainly the financing of shipments of food to the United Kingdom. By the end of 1945 these interim advances to the United Kingdom amounted to $164 million, in addition to about $42 million to the Government of India for railway equipment and $4 million to Australia. During the first two months of 1946 there were further interim advances to the United Kingdom and to India which along with the advances in 1945 were written off under the terms of the Agreement on the Settlement of War Claims. Some interim advances after March 1 were later repaid by the United Kingdom after the commencement of the use of the new credit, $540 million of which was drawn down in 1946. Net interim advances to Empire countries for financing exports in 1946 were approximately $112 million. Among the other financial transactions between the two governments in 1946 which are included in the balance of payments statement were repayments by the United Kingdom on the 1942 loan aggregating $89.4 million, leaving $471.9 million of the loan outstanding at the end of 1946. The principal private capital transactions were redemptions of about $76 million of Canadian securities owned in the United Kingdom and gross repurchases of outstanding issues of about $58 million, or net repurchases of about $54 million. Repatriations of Canadian stocks constituted most of the repurchases although purchases of municipal and corporation bonds were also large. Other transactions of a capital character between the two countries were smaller, and included changes in British cash balances in Canada, and in Canadian held sterling balances. Since the financial settlement by the United Kingdom of $150 million was effected by means of a sale of gold to Canada, the financial settlement and the purchase of gold by Canada were offsetting in their effects upon the financing of the sterling area's deficiency in Canada. A considerable inflow of funds from Britain arising from inheritances which had been blocked during the war along with capital remittances by British emigrants to Canada are the main groups of financial transactions included in the current account rather than the capital account because of their special unilateral character.

An additional amount of Mutual Aid to Empire countries of $5 million is included in the statement for 1946 representing some final transactions in these accounts. Virtually all of this amount is in the accounts with Empire countries other than the United Kingdom, and the amount is included in exports to these countries and offset in the statement including the various methods of financing the sterling area deficiency, since although most of the goods covered were shipped prior to 1946, Mutual Aid transfers have been included in the balance of payments during the year in which the financial transactions occurred.

A number of other inter-governmental items directly arising out of wartime activities were the subject of settlements in the Financial Agreement and the Agreement on the Settlement of War Claims between Canada and the United Kingdom which were signed at Ottawa, March 6, 1946. Covered by the Financial Agreement was $425 million owing by the United Kingdom to Canada with respect to the British Commonwealth Air Training Plan which the Canadian government agreed to cancel. The Agreement for the Settlement of War Claims covered a more diverse group of outstanding claims which had accumulated during the war. The settlement was completed by the payment by the United Kingdom to Canada of $150 million to cover the balance of Canadian claims against the United Kingdom. Chief among the Canadian claims were the interim advances, already referred to, to the United Kingdom under the War Appropriation Act, mainly financing exports of food, following the end of Mutual Aid. There were also advances for other supplies delivered after the end of Mutual Aid, and advances to India for locomotives and a variety of amounts owing to Canada arising out of Canadian military and naval activities overseas. More prominent among the amounts owed by Canada to

the United Kingdom were balances due with respect to army capitation payments, the balance owing by the air force on reserve stocks account, the balance of the United Kingdom equity in the general working capital fund, and the United Kingdom claims to reserves accumulated in various pool projects arising from price adjustments. The special settlement cancelled all claims between the two governments arising between September 3, 1939 and the end of February 1946 with the exception of certain special transactions settled otherwise such as the amounts, already referred to, owing by the United Kingdom with respect to the British Commonwealth Air Training Plan, the 1942 loan to the United Kingdom, claims arising out of military relief and out of transactions for which established procedures were in operation, and certain payments of a routine nature.

The balance of Canadian indebtedness to the United Kingdom which at the end of 1945 was close to $1 billion was reduced by approximately one-half by capital transactions during 1946.

CURRENT TRANSACTIONS WITH THE UNITED STATES

The characteristic feature of Canada's current account with the United States has been the substantial deficit normally arising from current transactions. Current Canadian expenditures in the United States have exceeded current receipts from that country in each year during the period of over two decades for which records are available with the exception of the unusual years 1944 and 1945, when slight surpluses resulted from abnormally large temporary receipts from the sale of munitions and grain to the United States. The typical excess of Canadian commodity imports from the United States over exports and the large payments on income account are the principal contributors to the deficits. Net payments by Canada for transportation and other services in the United States are also appreciable. The deficits on merchandise account result from the large volume and very wide range of commodities of all types purchased by Canada from the United States, compared with the narrower range of raw materials and primary products which the United States purchases in Canada, while the large income payments are directly related to the large amount of American capital invested in Canada which is much greater than in any other country. But, offsetting some part of the deficits from the types of transactions already referred to have been Canadian gold production which before the war was rising rapidly and the balance of receipts from United States tourists expenditures in Canada which usually exceeded Canadian expenditures on travel in the United States by a wide margin.

Before the war when sterling was freely convertible into U.S. dollars the current deficits were met out of the current surplusses which Canada had with the United Kingdom and other overseas countries. But, since the beginning of the war sterling ceased to be freely convertible because of the British deficiency of dollar exchange and the controls which had to be introduced to conserve British expenditures of dollars. Likewise other countries, particularly recent belligerent countries, have not been in a position to provide convertible exchange for all of their purchases in Canada. Consequently Canada now has to meet part of the current deficits with the United States by other means as the amount of convertible exchange received from overseas countries in only a minor part of Canada's current deficit with the United States. Although Canada has large current credit balances from trade with the sterling area and countries receiving export credits, the major parts of these export balances are financed by export credits from the Canadian government since the borrowing countries have not sufficient convertible exchange to meet their import requirements.

The special wartime methods of meeting Canadian needs for U.S. dollars have been described in detail in earlier reports on the Balance of Payments and reviewed for the wartime period in the Canadian Balance of International Payments, 1926 to 1945. Generally, new current sources of dollars were created by the special sale of munitions and other commodities to the United States, while unnecessary expenditures were limited by the introduction of curbs on current expenditures on pleasure travel and non-essential commodities during the period in which the wartime dollar scarcity was most acute. Controls on capital exports throughout the period ensured that funds were not lost through capital transactions. While in the two years at the end of the war Canada had, due to a combination of unusual temporary circumstances, small current surplusses, the Canadian current account with the United states again changed drastically in 1946 when large current deficits again reappeared.

The disequilibrium in the current account with the United States in 1946 was larger than in any other year in Canadian history, as post-war demands for goods and services in the United States first became effective. The deficit on current account of $603 million is much larger than the wartime peak of $318 million in 1941, and $437 million in 1929, the peak in the predepression period of prosperity. In the years immediately before the war the deficit was much smaller, being $139 million in 1938. The size of the deficit took on added significance in 1946 as the normal pre-war sources of convertible exchange from trade with overseas countries have been temporarily reduced because of the insufficiency of current dollar incomes resulting from limited productivity overseas during the transitional period in which overseas economies are being rehabilitated and re-converted to peacetime production. While Canada received some gold and U.S. dollars from the United Kingdom and other overseas countries, these receipts were insufficient to cover the Canadian deficit with the United States in 1946. Consequently a considerable part of the deficit was met by capital inflows from the United States and by some use of official liquid reserves. These methods of covering the current deficit with the United States are described further below in the section dealing with capital movements between Canada and the United States dollar area.

The sudden re-emergence of the large deficit with the United States resulted from divergent trends in the receipts and expenditures. While total current receipts of $1,575 million contracted $165 million, current expenditures expanded sharply by $468 million to a record level of $2,178 million. The principal decline in receipts was from the sale of munitions and grain while the sharp gain in expenditures was more widely distributed, the large growth in the import total being accompanied by substantial increases in most of the other types of expenditure as well. Many sources of receipts tended to be limited in 1946 by available productive capacity in Canada, and by prevailing shortages of labour and materials, and by some interruptions to the production and movement of goods. In the case of some commodities like pulp and paper the United States has been receiving the largest part of Canadian production. But, because of the relatively small size of Canadian expenditures in the United States in relation to total goods and services available in the United States limitations of supply there were not as significant for the trade balance as they were in the case of the smaller range and limited production of Canadian goods and services sold to the United States. Canadian expenditures in the United States only amounted to a relatively small part, a little over 1 per cent, of the great pool of United States goods and services produced which aggregated $194 billion according to official estimates in the United States. In contrast Canadian goods and services sold to the United States constituted over 14 per cent of the gross national product of Canada. Although there were prevailing shortages in the United States throughout 1946 and particularly in the earlier part of the year, the effects of insufficient supply were less apparent in relation to the Canadian balance of trade and a very large total of expenditures was possible even with the scarcities. Canadian imports from the United

States in 1946 amounted to more than $100 per capita, while United States purchases of goods in Canada only amounted to something like $6 per capita.

Relationships between national income and Canadian imports and other expenditures in the United States are naturally close. The national income of Canada in 1946 reached a record peacetime level but the circumstances producing it and the prevailing economic background have been unique. A large volume of government financed exports, and other government expenditures, unprecedented amounts of private internal investment and consumption have combined to produce abnormally high demands. These have led to new peacetime peaks in imports from the United States. Besides the direct consumers expenditures on United States goods and services there are the imports of fuel, materials, and components required in great volume when Canadian production is high, and the variety of machinery and capital equipment of United States origin purchased. A list of Canadian imports from the United States covers a great variety of commodities consumed in modern industry from raw materials and fuels to finished articles as well as many of the foods and other goods sold in Canadian stores. Just as it is impossible to determine how much of the current size of national income is due to the accumulation of wants which were postponed during the war so is it difficult to judge how much of the recent level of imports results from long deferred demands. Although it would appear that this factor is appreciable particularly in the case of machinery and capital equipment it should be noted that supplies of most commodities, particularly consumers' durable goods, were inadequate to meet demands even in the latter months of 1946 when supplies in the United States were less scarce than early in the year. There seems, therefore, to have been a considerable amount of unsatisfied Canadian demands for United States commodities throughout the year 1946.

Canadian imports from all countries in 1946 were 16.4 per cent of the gross national product of Canada of $11,129 million, and because of prevailing conditions of supply most of the imports were from the United States. This is a higher percentage than in any other year during the period from 1938 on for which comparable statistics of the gross national product and expenditure are available, the ratio comparing with 12.7 per cent in 1945 and an earlier peak of 15.2 per cent in 1940. But the total of all current international debits was only a slightly higher ratio of national expenditure in 1946 than in 1945, mainly because the rise in imports was mostly offset by a decline in war expenditures by the Canadian government overseas. On the other hand gross current international credits from exports of goods and services were down to 30.0 per cent of the gross national expenditure in 1946 from a peak of 39.6 per cent in 1945. The corresponding ratio in 1938 was 26.8 per cent indicating that external revenue represented about the same ratio of national expenditure as in the period just before the war. It is notable that the ratio of imports to income was less in 1946 than in 1929 the earlier peacetime year of peak prosperity.

The increases in imports from the United States in 1946 were widely distributed as to commodities and were largest in the latter part of the year when there were better transportation conditions and when supplies of many commodities were increasing. A new peak in imports was reached in the last quarter of the year. Besides the improving supply, rising prices in the United States contributed to the growth in Canadian expenditures. Most of the price rises occurred with the decontrol of prices in the latter half of the year, and prices were still generally rising in groups of imports of significance to Canada at the year end. The official index of wholesale prices in the United States rose from 112.9 in June to 140.9 in December (1926=100). Although the return of the Canadian dollar to parity in July acted to reduce the Canadian dollar cost of imports the effect of this was more than offset by the rising price trend in the United States. Imports connected with very abnormal inventory increases are not evident, although a general improvement in

Canadian inventories took place during the year and some of this was in commodities imported from the United States. Some of the concentration in imports from the United States can be attributed to the slowness in recovery of overseas sources of supply which formerly were important to Canada as in the case of the British cotton textile industry.

ANALYSIS OF IMPORTS FROM THE UNITED STATES

(Millions of Canadian dollars)

	1937	1945	1946	Quarters of 1946 I	II	III	IV
Agricultural and Vegetable Products	44.4	122.2	155.5	35.5	40.1	31.9	48.0
Animal Products	12.6	20.8	33.9	10.2	6.4	6.7	10.4
Fibres, Textiles	39.1	109.3	140.2	28.9	28.9	29.9	52.5
Wood and Paper Products	27.5	46.6	64.2	14.8	16.5	14.8	18.1
Iron and Its Products	173.9	375.0	467.0	83.3	118.3	122.5	142.9
Non-ferrous Metal Products	31.1	65.8	84.1	17.3	20.9	20.5	25.2
Non-metallic Mineral Products	104.7	224.0	274.8	54.6	56.9	79.4	83.9
Chemicals and Allied Products	22.5	71.3	83.6	19.9	22.5	19.1	22.3
Miscellaneous(1)	34.8	167.4	102.0	19.0	24.2	26.5	32.2
TOTAL	490.6	1,202.4	1,405.3	283.5	334.7	351.3	435.5

(1) The above figures have not been adjusted for balance of payments purposes. Included, therefore, in the miscellaneous groups are war materials and other non-commercial imports not purchased by Canada.

N.B. Due to rounding of monthly figures totals by quarters do not in every case add to exact annual total.

As the accompanying analysis of imports shows, increases from 1945 to 1946 were general and the values in the latter year were at least double and sometimes three or four times the prewar levels, the total of imports being not far from three times the 1937 total. While a considerable part of the increase during the decade is due to higher prices, quantities of imports in 1946 were generally much heavier than in 1937. In the case of some consumers goods the increase in quantity has been manifold, as the United States has become an important source of supply. To a large extent Canadian consumption of consumer goods is reflected in the groups of agricultural and animal products, and textiles. Both finished goods, and materials like raw cotton and cotton yarns, and fabrics for production of consumer goods in Canada enter into these imports. The important groups, iron and products and non-ferrous metals, generally reflect direct and indirect imports of durable goods. Agricultural implements and other machinery for productive purposes in Canada constitute important parts of the increase. Industrial materials, like primary steel, are also important constituents of these groups. Imports of automobiles and parts and other durable goods like electrical apparatus make up another important share of the durable goods imports. Many Canadian industries producing durable goods are subsidiaries of United States companies and there are close industrial relationships between Canada and the United States resulting, many of the parts and materials coming from related suppliers in the United States. In this class of production there is an appreciable amount of United States dollar content arising from Canadian exports of durable goods to overseas countries. The other principal elements in Canadian imports are made up of the groups, non-metallic mineral products, comprising for the most part fuels like coal and petroleum and their products, and

chemicals and allied products entering into a great many branches of industrial production. The miscellaneous group includes a variety of manufactured goods and some non-commercial imports.

Other current Canadian expenditures in the United States were for freight and shipping services, interest and dividends, travel and miscellaneous services and remittances. Each of these groups of expenditures resulted in net payments by Canada with the exception of travel expenditures which although at a record level were again exceeded by substantial receipts from American tourists.

The balance of payments of $66 million on freight and shipping account was higher than in 1945 but less than wartime peaks when ocean transportation costs were higher. The increase in net payments from 1945 was mainly due to reduced receipts from the transportation of exports to the United States and from transportation services for the United States government in Canada, total payments to the United States being slightly lower. The latter decline arose from a decline in ocean shipping costs, from reduced freight in the United States on Canadian exports shipped to the sterling area through the United States, and from the revaluation of the Canadian dollar, although the United States dollar cost of rail freight was higher in 1946 because of the large volume of imports and some increases in United States railway rates during the last half of the year.

Payments of interest and dividends to the United States of $250 million were the highest yet reached. Net payments of $204 million compare with $150 million in 1945 and an earlier peak of $204 million in 1940. Canadian receipts of income from the United States of $46 million were higher than in earlier years with the result that the previous peak of net payments was not exceeded. Income payments were divided between interest on bonds and debentures of $101 million, and dividends of $149 million, after tax. Interest payments have been rising in recent years as a result of the increases in United States holdings of Canadian bonds even though interest rates have been declining through refinancing and redemptions of high coupon issues. The Canadian dollar cost of interest paid in United States dollars in 1946, however, was reduced as the result of the revaluation of the Canadian dollar. The dividend payments of $149 million to the United States in 1946, after withholding taxes, were at a new peak comparing with $86 million in 1945 when payments were abnormally low as many companies reinvested considerable amounts of earnings. The increase was concentrated in payments by Canadian subsidiaries to parent companies in the United States. The source of the large dividend payments in 1946, therefore, was different from earlier periods of heavier dividends. A larger proportion in 1946 represented inter-company payments, whereas in earlier periods payments by public companies, particularly mining companies, were relatively more important. As well as reflecting earnings in 1946, heavier payments in the last half of 1946 by subsidiaries of United States companies represented, in many instances, withdrawals of earnings accumulated in earlier years. The slight rise in Canadian receipts of income from the United States took place in income from United States subsidiaries of Canadian companies as there was a slight decline in dividends received from publicly owned United States companies arising from the reductions in Canadian holdings of these issues in recent years. Some miscellaneous payments and receipts of income are included in the items "all other current receipts and payments". Payments of miscellaneous income were somewhat higher on balance in 1946 than in the previous year, partly because of withdrawals of accumulated earnings.

All other payments by Canada for current purposes almost doubled in 1946, while miscellaneous current receipts were slightly lower. Consequently there was a balance of payments of $82 million in 1946 compared with net receipts of $41 million

in 1945 and net payments of $37 million in 1937. Part of the change arises from different abnormal government expenditures included. In 1945 there were appreciable receipts from United States government expenditures on defence in Canada, whereas in 1946 these were small. But, on the other hand, the Canadian government made payments with a value of approximately $21 million (Canadian funds) to the United States Treasury in 1946 to cover the purchase of immovable assets left by the United States government in Canada, and certain military equipment. Almost every other type of current payment to the United States was also higher in 1946. Larger payments for business services of various kinds and for entertainment services, heavier personal remittances, and larger withdrawals of miscellaneous income not included in the interest and dividend item, all contributed to the growth in current payments. In addition there were unilateral payments of $31 million, which were almost double the 1945 figure, connected with inheritances, and emigrants funds arising from a larger movement of residents of Canada to the United States.

Although receipts from exports to the United States declined from $1,134 million in 1945 to $948 million in 1946 this was due to the decline in the sales of munitions and grain. Receipts of U.S. dollars by War Supplies Ltd. from the sale of munitions included in the total were about $55 million (Canadian funds) in 1946 compared with close to $200 million in 1945. Most of the funds received in the latter year were from exports shipped earlier, munition shipments in 1946 being negligible. Other exports were considerably higher, however, chiefly because of the marked increase in exports of wood products which grew from $329.3 million to $447.8 million in 1946. Increases in the volume and price of newsprint, pulp and lumber all contributed to this increase which was most marked in the latter months of the year. Exports of non-ferrous metal and animal products, like fish and furs, also continued to be important contributors of United States exchange, although they were generally lower than in 1945. Exports of non-metallic minerals were slightly higher, and exports of chemicals continued to be much more substantial than before the war although less than during the war when many of these products were sold by War Supplies Ltd.

EXPORTS OF CANADIAN PRODUCE TO THE UNITED STATES

(Millions of dollars)

	1937	1946
Agricultural and Vegetable Products ...	59.7	104.9
Animal and Animal Products	48.8	99.0
Fibres, Textiles and Textile Products ..	2.7	10.5
Wood, Wood Products and Paper	179.5	447.8
Iron and Its Products	7.0	32.0
Non-ferrous Metals and Their Products ..	44.7	98.6
Non-metallic Minerals and Their Products.	19.4	36.3
Chemicals and Allied Products	9.7	30.0
Miscellaneous Commodities	9.9	20.1
TOTAL	381.4	879.2

N.B. Above data exclude foreign produce and with the exception of adjustments for sales of grain, the figures are not adjusted for balance of payments purposes.

Net exports of non-monetary gold in 1946 had about the same Canadian dollar value of $96 million as in 1945. This figure corresponds closely to the value of current production in Canada less gold used for commercial purposes. The total is included in the current account with the United States as the newly-mined gold represents a current source of convertible exchange or assets even though it may not

all have been sold in the United States. Any of the gold which increases Canada's official stocks is offset in the capital account by an entry covering the change in gold holdings. While Canadian gold production rose moderately in 1946 the Canadian dollar value for the year was not much different because of the revaluation of the Canadian dollar. Shortages of labour prevented any substantial rise in gold production

Expenditures on travel between Canada and the United States reached new peaks in 1946 but the rise in American expenditures in Canada was offset by a rise of corresponding size in Canadian expenditures in the United States, with the result that estimated net receipts of $83 million were close to net receipts in 1945. United States expenditures on travel in Canada rose from $163 million in 1945 to $214 million in 1946, but Canadian expenditures in the United States rose from $81 million to $131 million. Influencing the expenditures in both directions were high levels of incomes and greater freedom of transportation after the period of wartime restraints and restrictions. Much of the increase in United States travel to Canada occurred in the automobile traffic which returned to a volume greater than before the war. Travel by air, bus and boat also increased notably, the only decline being in rail travel which, however, still continued much higher than prewar. The number of longer-term tourists to Canada was higher than prewar, considerably exceeding 3,000,000 persons. In addition there were many millions of local short-term visitors from the United States. The average expenditures of travellers in both directions were higher than in earlier years reflecting higher incomes, and, particularly in the case of Canadian expenditures in the United States, a growing availability of merchandise. Per capita expenditures of Canadians on travel in the United States continued to be much greater than corresponding American expenditures in Canada, as in the case of commodity transactions between the two countries. Canadians spend over $10 per capita on travel in United States in comparison with per capita American expenditures of around $1.50 in Canada.

CONVERTIBLE EXCHANGE FROM OTHER FOREIGN COUNTRIES

Foreign overseas countries have customarily been an important source of supply of convertible exchange needed in settling Canada's accounts with the United States. The major part of the large export balance with this group of countries in 1946, however, was financed by export credits of about $210 million as described further below. The remaining transactions, including inland freight and shipping revenue and income from investments, resulted in a credit balance of $87 million. Contributing to this source of convertible exchange were transfers of free U.S. dollars by UNRRA of about $33 million (Canadian funds) to cover expenditures in Canada, U.S. dollars received from borrowing governments under the terms of the export credit loans, and from private trade with these countries aggregating about $60 million, plus a small balance of receipts from other countries with convertible exchange. The net receipts of dollars from borrowing countries are less than the gross receipts noted above because of Canadian expenditures of convertible exchange in the borrowing countries which included about $22 million on imports and smaller amounts for income payments on private investment in Canada owned in these countries. While Canadian commodity trade with Latin America resulted in a deficit of about $15 million there were export balances with some other foreign countries in Asia, Africa and Europe which more than offset this commodity deficit. In addition there were some receipts for inland freight and shipping services over and above any small Canadian payments to these countries for shipping services. There were also some receipts of income from Canadian investments in Latin America. Travel between Canada and this group of countries was small in 1946, transactions being largely offsetting, and other exchanges of services including costs of government representation were relatively small. There were, however, substantial personal and benevolent

remittances to some European and Asiatic countries.

It is notable that net receipts of convertible exchange of $87 million are of comparable size to net receipts from current trade with other foreign countries before the war when credit balances ranged from $98 million in 1937 to $66 million in 1939. The principal contrast in the recent situation lies in the size of the balance of convertible income in 1946 in relation to the larger total of exports to the area financed on credit from the Canadian government and in the much larger deficit which Canada now has with the United States, giving rise to the need for convertible income from elsewhere, and in part the result of the heavy exports from Canada which are made possible by government credits.

EXPORT CREDITS AND OFFICIAL CONTRIBUTIONS OF RELIEF

The net amount of export credits extended to foreign countries in 1946 amounted to about $209.7 million compared with $104.5 million in 1945. Actual drawings under the Export Credits Insurance Act, Part II were greater than this in 1946 since some of the funds drawn were used to repay interim advances obtained in 1945. Most of the net export credits were spent on goods actually exported during 1946 although a minor part of the funds were spent on transportation and other services, and payments for goods under production which will eventually be exported.

The amount of export credit loans already authorized but not drawn by December 31, 1946 amounted to about $289 million. This is exclusive of the $155.5 million of the potential total of $750 million of credit which was still unallocated at the end of 1946.

NET LOANS AND ADVANCES TO FOREIGN GOVERNMENTS

(Millions of Cdn. dollars)

	1945	1946
Belgium	22.5	30.1
China	-	16.5
Czechoslovakia	0.7	3.2
France	34.9	108.9
Netherlands	29.8	34.2
Netherlands Indies	0.6	4.8
Norway	6.2	10.2
U. S. S. R. *	9.9	1.8
TOTAL	104.6	209.7

* Exclusive of repayments of $5.0 million received in 1946 on the $10 million wheat loan, but including interim advances of $8.8 million.

In addition to the exports paid for out of loans from the Dominion Government there were exports to European countries and China which were financed out of the Canadian government contribution to UNRRA. Goods exported during 1946 only amounted to a minor part of the total Canadian contribution of $154 million since there were appreciable exports in 1945 and at the end of 1946 there remained some funds to be spent on shipments after that date. Exports from the Canadian contribution in 1946 are provisionally estimated at about $68 million, including some expenditures on freight. There were shipments to such destinations as Austria, China, Czechoslovakia, Greece, Italy, Poland, the U.S.S.R. and Yugoslavia. In addition to

the UNRRA relief there was military relief covered by Canadian government expenditures of $14.2 million in 1946 and Mutual Aid to foreign countries of $19.4 million. While some of the commodities financed by these latter two measures were exported earlier than in 1946 the amounts are included in the 1946 statement because of the financing which occurred in that year. Not included in the statistics of official contributions of relief or the balance of payments are substantial private shipments of goods to overseas countries from Canada as gifts or for relief purposes. Total recorded gifts and donations covered in Canadian export statistics had a value of $30 million in 1946. This is exclusive of small individual shipments. A minor part of this total, however, is included in the amount of UNRRA shipments referred to above.

POSTWAR LOANS AND ADVANCES TO OTHER COUNTRIES
BY THE CANADIAN GOVERNMENT, AS AT DEC. 31, 1946
(Millions of Cdn. dollars)

	Export Credit Loans Authorized	Net Amounts Drawn to (1) Dec.31,1946	Amounts Not Drawn by Dec.31,1946
A. Export Credits -			
Belgium	100.0	52.6	47.4
China	60.0	16.5	43.5
Czechoslovakia	19.0	3.9	15.1
France	242.5	143.8	98.7
Netherlands	125.0	64.0	61.0
Netherlands Indies	15.0	5.4	9.6
Norway	30.0	16.4	13.6
U.S.S.R.	3.0	11.7	0.1
Total Allocated	594.5	314.3	289.0
B. Loan to United Kingdom	1,250.0	540.0	710.0

(1) Including Interim Advances of $14.0 mm outstanding December 31, 1946, of which Belgium received $1.6 mm, Netherlands $3.6 mm and the U.S.S.R. $8.8 mm.

OTHER LOANS TO OTHER COUNTRIES
OUTSTANDING, DEC. 31, 1946
(Millions of Cdn. dollars)

Loan of $700 million to United Kingdom in 1942	471.9
Wheat Loan to U.S.S.R.	5.0
Loans made after War of 1914-1918 -	
Greece	6.5
Roumania	24.3

CAPITAL MOVEMENTS BETWEEN CANADA AND
THE UNITED STATES DOLLAR AREA

The larger part of the current deficit with the United States in 1946 was financed by capital movements including the reduction in Canadian official reserves. The deficit of $603 million was financed as follows:

Gold purchased from the United Kingdom	$150 mm Cdn.
Net Current Receipts from Other Countries	87 mm Cdn.
Reduction in Official Reserves	263 mm U.S.
Balance - Other Capital Inflows (Including exchange adjustments)	103 mm Cdn.
	$ 603 mm Cdn.

Gold and U.S. dollars from the United Kingdom and other foreign countries were $150 million and $87 million, respectively, in terms of Canadian dollars. The remaining amount, $366 million, was financed by transactions on capital account. The decline in official hard currency reserves was $263 million U.S., leaving the Canadian holdings of gold and U.S. dollars at the end of 1946 close to $1¼ billion. Net receipts from other capital transactions were $103 million expressed in terms of Canadian dollars and including some exchange adjustments.

The figure of other capital transactions is the net inflow arising from a great variety of capital transactions in both directions. Transactions in Canadian securities, in contrast to earlier years, led to a net outflow of funds with the United States dollar value of $32 million or the Canadian equivalent of $28 million, as redemptions of the issues were greater than sales of outstanding Canadian securities to the United States dollar area. Redemptions reached a new record size as some large issues were called for redemption in addition to the number of issues which matured in 1946. Among the redemptions were Dominion of Canada issues with a par value of $115 million redemmed in January and a Canadian National Railway issue of about $24 million redeemed in July. A number of other issues called during the year were refinanced by new issues sold in the United States, particularly in the railway and public utility fields. The total of all new issues sold in the United States had a Canadian dollar equivalent of about $198 million if some substantial issues placed privately in the United States are included along with public floatations there. The total amount of Canadian issues retired in 1946 which were owned in the United States or elsewhere in the U.S. dollar area aggregated $453 million Cdn. The net retirements after deductions of the new issues in the United States amounted to $255 million, an amount which is much larger than in any earlier year, comparing with around $130 million in each of 1935 and 1936, and $162 million in 1943. Sales of outstanding Canadian securities to the U.S. dollar area of $227 million were unusually large, although less than the totals in the peak years 1945 and 1943 of $300 and $254 million, respectively. The heavy United States demand for Canadian securities was largely concentrated in the first half of the year before the revaluation of the Canadian dollar and during which period there was a wider variation between the higher yield on Canadian bonds compared with that on United States bonds than existed in that latter part of the year. Sales of Canadian bonds made up most of the total net sales. Sales of direct domestic issues of the Dominion government, and corporation issues constituted the largest part of the capital inflow although there were also some appreciable sales of provincial issues and some sales of municipals and Dominion guarantees. There were net sales of Canadian stocks as well, but large repurchases in connection with exchanges of securities offset most of the sales.

The transactions in Canadian securities in 1946 do not point to any very significant change in the total of holdings of Canadian bonds in the United States which at the end of 1945 had a par value estimated at $2,587 million out of total United States investments in Canada at that time of $4,982 million.

Transactions in United States and foreign securities yielded United States dollars with a Canadian dollar value of about $64 million. Most of this, $52 million,

represents U.S. dollars received from sales and redemptions of United States securities. The total is larger than in any earlier year with the exception of 1945. The figure does not reflect the change in Canadian holdings of United States securities in 1946, however, as there were also appreciable purchases of United States securities in connections with exchanges of securities. The reduction in private Canadian holdings of United States securities was consequently much less than the above figures suggest.

Other private capital movements during the year reduced Canadian assets abroad by $15 million on balance. This change arose from net liquidations of other forms of assets than securities, as liquidations of assets exceeded capital outflows permitted for direct investments by Canadian businesses abroad, and the first subscription of about $6 million in United States currency by Canada to the capital of the International Bank, - the two principal forms of capital outflow in 1946 other than redemptions of securities. There was also increases in Canadian liabilities abroad arising from such capital inflows as funds for American direct investments in branches and subsidiaries in Canada, and for deposit in bank accounts in Canada. Increases in liabilities other than from security transactions had a U.S. dollar value of $61 million on balance. Exchange adjustments included in the figure of capital transactions arise from the necessity of converting all capital transactions to a common currency. These include the conversion of the change in official reserves to the Canadian dollar equivalent during the period of the year up to July when the change in the exchange rate occurred and the conversion of other capital transactions which took place in U.S. dollars in the earlier part of the year. In the capital account between Canada and all Non-Empire countries there are included some capital entries between Canada and other foreign countries in addition to those affecting Canada's dollar position already described above. These transactions, including some entries adjusting exchange transactions, were mainly offsetting.

As a result of capital movements during the year the balance of Canadian indebtedness to the United States which at the end of 1945 was less than $3 billion was considerably more than $3 billion by the end of 1946, although Canada's investment position with respect to other foreign overseas countries is now that of a creditor, assets in that area exceeding liabilities by several hundred millions of dollars.

STATISTICAL NOTES

Currency Areas

In statements for the period of exchange control, 1939 to 1946, the tables for Empire countries include transactions with the whole sterling area, and tables for Non-Empire countries cover all transactions with the non-sterling area. The latter statements, consequently, include transactions in Canadian dollars and other currencies with the United States dollar area, as well as transactions in United States dollars. Exports financed by Mutual Aid, UNRRA and other official gifts, and by export credits and other advances in Canadian dollars are included in the statements with Non-Empire countries. These official transactions are offset by debit entries shown separately in the statements outside of the current account. Similarly, there are some relatively small debit entries in the current account with Non-Empire countries which represent mainly personal remittances which are not made in United States dollars or related currencies. These debits are offset by adjusting credits in the capital account with Non-Empire countries, there also being adjusting debits in the capital account with Empire countries.

Merchandise Trade

While export and import statistics are the principal source used for this item, they have been adjusted to bring them more into conformity with payments in the two currency areas into which the balance of payments statements are divided.

During the period when data on international payments for war supplies through official channels were available, these have been substituted for the value of goods exported. Thus, in the years 1941 to 1946, British payments through official channels for war supplies and food, and payments by the United States government for war supplies and metals exported under the Hyde Park Agreement have been entered as credits in the merchandise account rather than the value of the goods exported. Similarly, from 1943 to 1946, the expenditures from the Mutual Aid Appropriation on account of the various countries are reflected rather than the commodities exported. Since war supplies purchased by the British and United States governments have been shipped to various destinations, this substitution of financial data on payments for the value of goods shipped has been a major adjustment necessary in the construction of balance of payments statements with the two currency areas for the years from 1941 to 1946. The figures in the merchandise item of the tables are accordingly indicative of international payments rather than of shipments of goods to the various countries and areas. Exports are also adjusted on account of wheat and other grain movements for storage. Adjustments have also been made for diversions of grain throughout the period 1926 to 1946. In the years from 1926 to 1930, these adjustments were particularly substantial when large amounts of wheat originally recorded as exported to the United Kingdom were eventually sold in Continental Europe. The adjustments made take the form of deductions from recorded exports to the United Kingdom and additions to recorded exports to other countries. During the war, trade between Canada and Newfoundland has been excluded and shipments of merchandise on Canadian account, such as equipment and supplies for the Canadian forces overseas, Red Cross supplies and private gifts, have also been deducted from the exports as no foreign exchange accrues from these transactions.

Imports of merchandise into Canada for the account of British or Allied Governments have also been deducted from the trade figures. These deductions cover such imports as goods which the British Government shipped to Canada as part of its contribution to the Combined Air Training Organization and equipment and supplies for the R.A.F. Special Schools in Canada before their absorption into the Combined Organization. Imports from the United States which have been deducted, are principally made up of aircraft, aircraft engines and parts and other military equipment, and materials for British or Allied organizations in Canada which are not paid for by Canada. Imports are adjusted for warehousing and for over-valuation. From 1943 to 1945, payments made on account by the Canadian government for military equipment and supplies purchased in the United States under the "Canpay" procedure are reflected in the item of imports from the United States rather than the goods imported during the period. Under this procedure, certain goods were purchased from the government of the United States through the Office of Lend Lease Administration for reasons of procurement and priority. In 1945 and 1946 military equipment returned from the United Kingdom by the Canadian armed services has been deducted from imports.

As a result of these adjustments, the merchandise item is more representative of the international payments made between Canada and the various countries and areas shown, particularly during the wartime years. There is still, however, the possibility of divergencies between the time of payment and the time of import or export in the large volume of trade which continues to flow through private channels although some adjustments for these in the case of intra-company transactions appears elsewhere in the balance of payments.

Notes on the composition and statistical treatment of other items in the current account appear in the Statistical Notes appearing on pages 25 to 28 of the report on the Canadian Balance of International Payments, 1926 - 1945, and in earlier reports on the balance of payments published by the Dominion Bureau of Statistics.

Net Exports of Non-Monetary Gold

This item is the value of "Net Exports of Non-Monetary Gold" as computed by the Bank of Canada and explained on page 152 of the September, 1939, Bank of Canada Statistical Summary. The figures correspond roughly to the value of current production in Canada. The total net exports have been shown in the current account with the United States although in the pre-war period, for instance, there were some exports of gold coin to overseas countries arising out of temporary market conditions in which there was a premium on the price of foreign gold coins. One reason for the procedure followed of showing all non-monetary gold in the current account with the United States was to show a current account with the United Kingdom in these years which is more representative of the more normal commercial trade between Canada and the United Kingdom than is the case when exports of gold coin are included. At the same time, the United States has been the principal market for the world's gold production. Then, too, as gold is interchangeable with United States dollars, gold along with holdings of United States dollars has constituted Canada's liquid reserve of convertible exchange during the war and postwar years, changes in which are entered in the capital account.

Interest and Dividends on Securities

This item is limited to interest on bonds and debentures and dividends paid on stock. The earnings of externally-owned concerns which are reinvested in Canada are not included. Some remittances of income on investments other than securities, for which data are available for the period from 1940 to 1946 for the first time, have been included in the item "All Other Current Transactions". Estimates of these miscellaneous income items have been included in the latter item for the pre-war years as well.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table I - Current Account Between Canada and All Countries, 1926-1946

(Millions of dollars)

Year	Current Receipts	Current Expenditures	Net Balance On Current Account	Mutual Aid and Other Official Contribution in Current Account	Net Balance on Current Account Excluding Mutual Aid and Official Contributions
1926 ...	1,665	1,538	+ 127	-	+ 127
1928 ...	1,788	1,820	- 32	-	- 32
1930 ...	1,297	1,634	- 337	-	- 337
1931 ...	972	1,146	- 174	-	- 174
1932 ...	808	904	- 96	-	- 96
1934 ...	1,020	952	+ 68	-	+ 68
1935 ...	1,145	1,020	+ 125	-	+ 125
1936 ...	1,430	1,186	+ 244	-	+ 244
1937 ...	1,593	1,413	+ 180	-	+ 180
1938 ...	1,361	1,261	+ 100	-	+ 100
1939 ...	1,457	1,331	+ 126	-	+ 126
1940 ...	1,776	1,627	+ 149	-	+ 149
1941 ...	2,458	1,967	+ 491	-	+ 491
1942 ...	3,376	2,275	+ 1,101	+ 1,002	+ 99
1943 ...	4,064	2,858	+ 1,206	+ 518	+ 688
1944 ...	4,557	3,539	+ 1,018	+ 960	+ 58
1945 ...	4,635	2,912	+ 1,723	+ 1,041	+ 682
1946(4)...	3,341	2,883	+ 458	+ 107	+ 351

Table II - Geographical Distribution of the Balance on Current Account Between Canada and Other Countries, 1926-1946.

Net Receipts or Credits (+), Net Payments or Debits (-)

(Millions of dollars)

Year	All Countries	United Kingdom (1)	Other Overseas Countries (2)	United States (3)
1926	+ 127	+ 58	+ 300	- 231
1928	- 32	- 21	+ 338	- 349
1930	- 337	- 106	+ 113	- 344
1931	- 174	- 54	+ 85	- 205
1932	- 96	- 14	+ 86	- 168
1934	+ 68	+ 46	+ 102	- 80
1935	+ 125	+ 62	+ 92	- 29
1936	+ 244	+ 122	+ 123	- 1
1937	+ 180	+ 135	+ 122	- 77
1938	+ 100	+ 127	+ 122	- 149
1939	+ 126	+ 137	+ 105	- 116
1940	+ 149	+ 343	+ 98	- 292
1941	+ 491	+ 734	+ 75	- 318
1942	+ 1,101	+1,223	+ 58	- 180
1943	+ 1,206	+1,149	+ 76	- 19
1944	+ 1,018	+ 746	+ 241	+ 31
1945	+ 1,723	+ 928	+ 765	+ 30
1946(4).....	+ 458	+ 495	+ 566	- 603

(1) Excl. wheat exports diverted to other overseas countries, and exports of gold.
(2) Incl. estimated wheat sold in European Countries.
(3) Incl. all net exports of non-monetary gold.
(4) Preliminary.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table III -- Revised Estimates of Current Account Between Canada and All Countries
(Millions of Dollars)

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
A. Current Credits with All Countries											
Merchandise exports	1,272	1,215	1,341	1,178	880	601	495	532	648	732	954
Tourist and travel expenditures	152	163	177	198	180	153	114	89	106	117	142
Interest & dividends	32	41	46	61	59	48	37	38	57	64	75
Freight and shipping	96	97	96	92	70	54	38	44	52	68	80
All other current credits	83	85	88	80	69	59	54	44	43	45	47
Total as above	1,635	1,601	1,748	1,609	1,258	915	738	747	906	1,026	1,298
Net exports of non-monetary gold	30	32	40	37	39	57	70	82	114	119	132
Total Current Credits	1,665	1,633	1,788	1,646	1,297	972	808	829	1,020	1,145	1,430
B Current Debits with All Countries											
Merchandise imports	973	1,057	1,209	1,272	973	580	398	368	484	526	612
Tourist and travel expenditures	99	100	98	108	92	71	49	44	50	64	75
Interest & dividends	240	257	275	322	348	330	302	264	268	270	311
Freight and shipping	105	109	116	130	103	79	66	66	79	82	97
All other current debits	121	120	122	125	118	86	89	89	71	78	91
Total Current Debits	1,538	1,643	1,820	1,957	1,634	1,146	904	831	952	1,020	1,186
Net balance on Current Account											
Excluding all gold	+ 97	- 42	- 72	- 348	- 376	- 231	- 166	- 84	- 46	+ 6	+ 112
Including non-monetary gold	+127	- 10	- 32	- 311	- 337	- 174	- 96	- 2	+ 68	+125	+ 244
Monetary gold	+ 1	- 7	+ 49	+ 37	- 36	+ 33	+ 3	+ 6	- 4	- 2	-
Including all gold	+128	- 17	+ 17	- 274	- 373	- 141	- 93	+ 4	+ 64	+123	+ 244

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table IV - Estimated Current Account Between Canada and the United Kingdom, 1926-1936

(Millions of Dollars)

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
A. Credits with the United Kingdom											
Merchandise exports (adjusted) (2)	315	271	288	224	174	139	149	188	234	258	342
Gold exports (1)						(1)		(63)	(27)	(16)	(59)
Tourist & Travel expenditures	8	10	9	9	8	8	7	5	7	7	8
Interest and dividends	2	2	2	2	2	1	1	2	2	2	2
Freight and shipping	15	10	11	8	7	9	5	8	11	21	23
All other current credits	12	12	13	13	12	13	14	11	7	7	7
Total Current Credits excluding gold	352	305	323	256	203	170	176	214	261	295	382
B. Current Debits with the United Kingdom											
Merchandise imports (adjusted)	148	171	194	188	147	85	61	80	103	110	120
Tourist & Travel expenditures	21	20	19	20	18	14	14	10	10	12	15
Interest and dividends	97	101	100	113	115	102	91	72	75	76	84
Freight and shipping	8	11	10	12	12	9	11	12	14	21	26
All other current debits	20	21	21	22	17	14	13	14	13	14	15
Total Current Debits	294	324	344	355	309	224	190	188	215	233	260
Net Current Account Balance Excluding Gold	+ 58	- 19	- 21	- 99	- 106	- 54	- 14	+ 26	+ 46	+ 62	+ 122

(1) Exports of gold to the United Kingdom are omitted from total credits with the United Kingdom.

(2) Excluding estimated wheat exports diverted to other overseas countries.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table V - Estimated Current Account Between Canada and the United States, 1926-1936

(Millions of Dollars)

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
A. Current Receipts from the United States											
Merchandise exports (adjusted)	476	489	507	519	397	254	169	177	226	285	369
Net exports of non-monetary gold (1)	30	32	40	37	39	57	70	82	114	119	132
Tourist expenditures	140	148	163	184	167	141	103	81	96	107	129
Interest and dividends	12	16	20	30	30	25	18	17	20	24	31
Freight and shipping	64	69	68	68	52	38	25	28	32	33	41
All other current credits	65	67	69	61	51	41	37	30	33	35	36
Total Current Credits Including All Non-monetary Gold	787	821	867	899	736	556	422	415	521	603	738
B. Current Payments to the United States											
Merchandise imports (adjusted)	652	690	810	875	634	372	246	205	278	299	352
Tourist expenditures	70	72	72	81	67	52	30	30	36	48	54
Interest and dividends	138	151	169	202	225	221	205	188	189	190	222
Freight and shipping	85	84	92	103	80	61	48	45	55	47	53
All other current debits	73	72	73	75	74	55	61	60	43	48	58
Total Current Debits	1,018	1,069	1,216	1,336	1,080	761	590	528	601	632	739
Net Current Account Deficit including all net exports of non-monetary gold	- 231	- 248	- 349	- 437	- 344	- 205	- 168	- 113	- 80	- 29	- 1

(1) All exports of non-monetary gold are included in the account with the United States.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table VI - Current Account Between Canada and Other Countries than the United Kingdom and United States, 1926-1936
(Millions of Dollars)

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
A. Current Credits with Other Countries											
Merchandise exports (1)	481	455	546	435	309	208	177	167	188	189	243
Tourist & travel expenditures	4	5	5	5	5	4	4	3	3	3	5
Interest and dividends	18	23	24	29	27	22	18	19	35	38	42
Freight and shipping	17	18	17	16	11	7	8	8	9	14	16
All other current credits	6	6	6	6	6	5	3	3	3	3	4
Total - Current Credits	526	507	598	491	358	246	210	200	238	247	310
B. Current Debits with Other Countries											
Merchandise imports	173	196	205	209	192	123	91	83	103	117	140
Tourist & travel expenditures	8	8	7	7	7	5	5	4	4	4	6
Interest and dividends	5	5	6	7	8	7	6	4	4	4	5
Freight and shipping	12	14	14	15	11	9	7	9	10	14	18
All other current debits	28	27	28	28	27	17	15	15	15	16	18
Total - Current Debits	226	250	260	266	245	161	124	115	136	155	187
Net Credits on Current Account	+ 300	+ 257	+ 338	+ 225	+ 113	+ 85	+ 86	+ 85	+ 102	+ 92	+ 123

(1) Including estimated wheat sold in European countries.

TABLE-VII Transactions Between Canada and All Countries, 1937 - 1946

(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946(3)
A. CREDITS-WITH ALL COUNTRIES										
Merchandise exports adjusted	1,041	844	906	1,202	1,732	2,515	3,050	3,590	3,657	2,398
Net exports of non-monetary gold	145	161	184	203	204	184	142	110	96	96
Tourist and travel expenditures	166	149	149	104	111	81	88	119	165	219
Interest and dividends	76	66	57	52	60	67	59	71	76	74
Freight and shipping	112	95	102	138	185	221	288	322	340	287
All other current credits	53	46	59	77	166	308	437	345	301	267
Total Current Credits	1,593	1,361	1,457	1,776	2,458	3,376	4,064	4,557	4,635	3,341
Special Gold Transactions (2)	-	-	2	248	-	23	143	55	33	150
Capital Credits	622	458	558	283	566	1,235	677	689	533	928
B. DEBITS-WITH ALL COUNTRIES										
Merchandise imports adjusted	776	649	713	1,006	1,264	1,406	1,579	1,398	1,442	1,822
Tourist and travel expenditures	87	86	81	43	21	26	36	58	83	135
Interest and dividends	302	307	306	313	286	270	261	264	253	312
Freight and shipping	137	105	119	132	167	228	294	252	222	210
All other current debits	111	114	112	133	229	345	688	1,567	912	404
Total Current Debits	1,413	1,261	1,331	1,627	1,967	2,275	2,858	3,539	2,912	2,883
Special Gold Transactions (2)	-	-	2	248	-	23	143	55	33	150
Capital Debits	794	570	694	471	1,063	1,341	1,354	737	1,222	1,282
Billion Dollar Contribution	-	-	-	-	-	1,000	-	-	-	-
Mutual Aid (3)	-	-	-	-	-	-	512	936	940	25
Contributions to UNRRA	-	-	-	-	-	-		11	34	68
Military and Other Relief	-	-	-	-	-	2	6	9	67	14
C. NET BALANCES-WITH ALL COUNTRIES										
Merchandise trade adjusted	+265	+195	+193	+196	+468	+1,109	+1,471	+2,192	+2,215	+576
Net exports of non-monetary gold	+145	+161	+184	+203	+204	+184	+142	+110	+ 96	+96
Tourist and travel expenditures	+79	+63	+68	+61	+90	+55	+52	+61	+ 82	+84
Interest and dividends	-226	-241	-249	-261	-226	-203	-202	-193	-177	-238
Freight and shipping	- 25	-10	-17	+ 6	+18	- 7	- 6	+70	+118	+77
All other current transactions	- 58	-68	-53	-56	-63	-37	-251	-1,222	-611	-137
Total Current Account	+180	+100	+126	+149	+491	+1,101	+1,206	+1,018	+1,723	+458
Special Gold Transactions (2)	-	-	-	-	-	-	-	-	-	-
Capital Accounts	-172	-112	-136	-188	-497	-106	-677	-48	-689	-354
Billion Dollar Contribution	-	-	-	-	-	-1,000	-	-	-	-
Mutual Aid (3)	-	-	-	-	-	-	-512	-936	-940	-25
Contributions to UNRRA	-	-	-	-	-	-	-	-11	-34	-68
Military and Other Relief	-	-	-	-	-	-2	-6	-13	-67	-14
Balancing Item (1)	-8	+12	+10	+39	+6	+7	-11	-10	+ 7	+ 3
	-180	-100	-126	-149	-491	-1,109	-1,206	-1,018	-1,719	-458

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically.

(2) This represents gold or United States dollars received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

(3) Subject to revision.

TABLE - VIII Transactions Between Canada and Empire Countries, 1937 - 1946

(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946(3)
A.CREDITS-WITH EMPIRE COUNTRIES										
Merchandise exports adjusted	493	442	436	699	1,098	1,541	1,763	1,970	1,954	895
Tourist and travel expenditures	12	10	9	6	3	2	1	2	2	4
Interest and dividends	7	5	5	3	5	7	5	9	8	9
Freight and shipping	45	43	43	76	119	127	148	169	183	132
War Services	-	-	-	20	74	130	128	128	81	18
All other current credits	8	8	9	18	22	19	21	29	38	76
Total Current Credits	565	508	502	822	1,321	1,826	2,066	2,307	2,266	1,134
Capital Credits	118	102	97	116	181	884	20	146	73	309
B.DEBITS-WITH EMPIRE COUNTRIES										
Merchandise imports adjusted	235	184	177	236	279	226	200	196	213	267
Tourist and travel expenditures	18	17	13	3	3	2	2	2	2	3
Interest and dividends	87	83	80	76	68	51	52	56	54	55
Freight and shipping	47	34	39	36	36	49	47	33	34	32
Canadian Overseas expenditures	-	-	-	29	97	191	499	1,085	696	73
All other current debits	19	19	17	23	33	38	50	56	47	42
Total Current Debits	406	337	326	403	516	557	850	1,428	1,046	472
Special Gold Transactions(2)	-	-	2	248	-	23	143	55	33	150
Capital Debits	142	155	180	330	990	1,129	586	144	423	817
Billion Dollar Contribution	-	-	-	-	-	1,000	-	-	-	-
Mutual Aid	-	-	-	-	-	-	503	834	838	5
C.NET BALANCES-WITH EMPIRE COUNTRIES										
Merchandise trade adjusted	+258	+258	+259	+463	+819	+1,315	+1,563	+1,774	+1,741	+628
Tourist and travel expenditures	-6	-7	-4	+3	-	-	-1	-	-	+1
Interest and dividends	-80	-78	-75	-73	-63	-44	-47	-47	-46	-46
Freight and shipping	-2	+9	+4	+40	+83	+78	+101	+136	+149	+100
All other current transactions	-11	-11	- 8	-14	-34	-80	-400	-984	-624	- 21
Total Current Account	+159	+171	+176	+419	+805	+1,269	+1,216	+879	+1,220	+662
Special Gold Transactions (2)	-	-	-2	-248	-	-23	-143	-55	-33	-150
Capital Account	-24	-53	-83	-214	-809	-245	-566	+ 2	-350	-508
Billion Dollar Contribution	-	-	-	-	-	-1,000	-	-	-	-
Mutual Aid (3)	-	-	-	-	-	-	-503	-834	-838	- 5
Balancing Item (1)	(1)	(1)	(1)	+43	+ 4	- 1	- 4	+ 8	+ 1	+ 1
				-419	-805	-1,269	-1,216	-879	-1,220	-662

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically. In the statements of transactions with Empire Countries and with Non-Empire Countries it reflects mutilateral statements in the period before exchange control.

(2) This represents gold and U.S. dollars received from the U.K. in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

(3) Subject to revision.

TABLE-IX

Current Transactions Between Canada and the United Kingdom, 1937 - 1946
(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946 (1)
A. CURRENT CREDITS-WITH THE UNITED KINGDOM										
Merchandise exports adjusted	385	337	332	542	914	1,424	1,636	1,796	1,603	626
Tourist and travel expenditures	11	8	7	5	2	2	1	2	2	3
Interest and dividends	2	2	2	2	4	5	4	8	4	7
Freight and shipping	38	34	34	60	110	114	128	139	145	107
War services	-	-	-	10	45	96	104	96	65	18
All other current credits	8	8	9	17	18	16	16	22	35	73
Total Current Credits	444	389	384	636	1,093	1,657	1,889	2,063	1,854	834
B. CURRENT DEBITS-WITH THE UNITED KINGDOM										
Merchandise imports adjusted	148	119	106	133	137	116	100	94	100	138
Tourist and travel expenditures	16	15	11	2	2	2	2	2	2	2
Interest and dividends	85	81	78	74	66	50	51	55	53	54
Freight and shipping	43	30	36	32	28	41	40	28	30	32
Canadian Overseas expenditures	-	-	-	29	97	191	499	1,085	696	73
All other current credits	17	17	16	23	29	34	48	53	45	40
Total Current Debits	309	262	247	293	359	434	740	1,317	926	339
C. NET CURRENT BALANCES-WITH THE UNITED KINGDOM										
Merchandise trade adjusted	+237	+218	+226	+409	+777	+1,308	+1,536	+1,702	+1,503	+488
Tourist and travel expenditures	-5	-7	-4	+3	-	-	-1	-	-	+1
Interest and dividends	-83	-79	-76	-72	-62	-45	-47	-47	-49	-47
Freight and shipping	- 5	+ 4	- 2	+28	+82	+73	+88	+111	+115	+75
All other current transactions	- 9	- 9	- 7	-25	-63	-113	-427	-1,020	- 641	-22
Total Current Account	+135	+127	+137	+343	+734	+1,223	+1,149	+746	+928	+495
Mutual Aid (1) and Contribution (Included in Credits above)	-	-	-	-	-	+1,000	+501	+774	+777	-

(1) Subject to revision.

TABLE - X

Current Transactions Between Canada and Other Empire Countries, 1937 - 1946
(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946 (2)
A. CURRENT CREDITS-WITH OTHER EMPIRE COUNTRIES										
Merchandise exports adjusted	108	105	104	157	184	117	127	174	351	269
Tourist and travel expenditures	1	2	2	1	1	(1)	(1)	(1)	(1)	1
Interest and dividends	5	3	3	1	1	2	1	1	4	2
Freight and shipping	7	9	9	16	9	13	20	30	38	25
War Services	-	-	-	10	29	34	24	32	16	-
All other current credits	(1)	(1)	(1)	1	4	3	5	7	3	3
Total Current Credits	121	119	118	186	228	169	177	244	412	300
B. CURRENT DEBITS-WITH OTHER EMPIRE COUNTRIES										
Merchandise imports adjusted	87	65	71	103	142	110	100	102	113	129
Tourist and travel expenditures	2	2	2	1	1	(1)	(1)	(1)	(1)	1
Interest and dividends	2	2	2	2	2	1	1	1	1	1
Freight and shipping	4	4	3	4	8	8	7	5	4	-
All other current debits	2	2	1	(1)	4	4	2	3	2	2
Total Current Debits	97	75	79	110	157	123	110	111	120	133
C. NET CURRENT BALANCES-WITH OTHER EMPIRE COUNTRIES										
Merchandise trade adjusted	+21	+40	+33	+54	+42	+ 7	+27	+72	+238	+140
Tourist and travel expenditures	- 1	-	-	-	-	-	-	-	-	-
Interest and dividends	+ 3	+ 1	+ 1	- 1	- 1	+ 1	-	-	+ 3	+ 1
Freight and shipping	+ 3	+ 5	+ 6	+12	+ 1	+ 5	+13	+25	+34	+25
All other current transactions	- 2	- 2	- 1	+11	+29	+ 33	+27	+36	+17	+ 1
Total Current Account	+24	+44	+39	+76	+71	+ 46	+67	+133	+292	+167
Mutual Aid (2) Included in Credits	-	-	-	-	-	-	+ 2	+60	+61	+ 5

(1) Less than $500,000
(2) Subject to revision.

TABLE - XI

Transactions Between Canada and Non-Empire Countries, 1937 - 1946

(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946(3)
A.CREDITS-WITH NON-EMPIRE COUNTRIES										
Merchandise exports adjusted	548	402	470	503	634	974	1,287	1,620	1,703	1,503
Net exports of non-monetary gold	145	161	184	203	204	184	142	110	96	96
Tourist and travel expenditures	154	139	140	98	108	79	87	117	163	215
Interest and dividends	69	61	52	49	55	60	54	62	68	65
Freight and shipping	67	52	59	62	66	94	140	153	157	155
All other current credits	45	38	50	39	70	159	288	188	182	173
Total Current Credits	1,028	853	955	954	1,137	1,550	1,998	2,250	2,367	2,207
Special Gold Transactions(2)	-	-	2	248	-	23	143	55	33	150
Capital Credits	504	356	461	167	385	351	657	543	460	619
B.DEBITS-WITH NON-EMPIRE COUNTRIES										
Merchandise imports adjusted	541	465	536	770	985	1,180	1,379	1,202	1,229	1,555
Tourist and travel expenditures	69	69	68	40	18	24	34	56	81	132
Interest and dividends	215	224	226	237	218	219	209	208	199	257
Freight and shipping	90	71	80	96	131	179	247	219	188	178
Canadian overseas expenditures	-	-	-	-	-	-	-	-	25	49
All other current debits	92	95	95	81	99	116	139	426	144	240
Total Current Debits	1,007	924	1,005	1,224	1,451	1,718	2,008	2,111	1,868	2,411
Capital Debits	652	415	514	141	73	212	768	593	799	465
Mutual Aid	-	-	-	-	-	-	9	102	102	20
Contribution to UNRRA	-	-	-	-	-	-	-	11	34	68
Military and other relief	-	-	-	-	-	2	6	9	71	14
C.NET BALANCES-WITH NON-EMPIRE COUNTRIES										
Merchandise trade adjusted	+7	-63	-66	-267	-351	-206	-92	+418	+474	-52
Net exports of non-monetary gold	+145	+161	+184	+203	+204	+184	+142	+110	+96	+96
Tourist and travel expenditures	+85	+70	+72	+58	+90	+55	+53	+61	+82	+83
Interest and dividends	-146	-163	-174	-188	-163	-159	-155	-148	-131	-192
Freight and shipping	-23	-19	-21	-34	-65	-85	-107	-66	-31	-23
All other current transactions	-47	-57	-45	-42	-29	+43	+149	-238	+13	-116
Total Current Account	+21	-71	-50	-270	-314	-168	-10	+139	+503	-204
Special Gold Transactions (2)	-	-	+ 2	+248	-	+23	+143	+55	+33	+150
Capital Account	-148	-59	-53	+26	+312	+139	-111	-50	-339	+154
Mutual Aid (3)	-	-	-	-	-	-	-9	-102	-102	-20
Contributions to UNRRA	-	-	-	-	-	-	-	-11	-34	-68
Military and Other Relief	-	-	-	-	-	-2	-6	-13	-67	-14
Balancing Item (1)	(1)	(1)	(1)	-4	+2	+8	-7	-18	+6	+2
				+270	+314	+168	+10	-139	-503	+204

(1) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically. In the statements of transactions with Empire Countries and with Non-Empire Countries it reflects multilateral settlements in the period before exchange control.

(2) This represents gold and U.S. dollars received from the U.K. in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

(3) Subject to revision.

TABLE - XII Current Transactions Between Canada and the United States, 1937 - 1946
(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946(1)
A. CREDITS- WITH THE UNITED STATES										
Merchandise exports adjusted	391	268	344	424	566	911	1,224	1,444	1,134	948
Net exports of non-monetary gold	145	161	184	203	204	184	142	110	96	96
Tourist and travel expenditures	149	134	137	98	107	79	87	117	163	214
Interest and dividends	31	25	27	29	39	43	34	42	44	46
Freight and shipping	45	39	46	49	64	92	137	146	134	112
All other current credits	42	36	42	31	65	152	274	176	169	159
Total Current Credits	803	663	780	834	1,045	1,461	1,898	2,035	1,740	1,575
B. DEBITS- WITH THE UNITED STATES										
Merchandise imports adjusted	463	400	472	702	910	1,116	1,311	1,113	1,119	1,378
Tourist and travel expenditures	65	66	67	40	18	24	34	56	81	131
Interest and dividends	211	218	220	233	214	215	205	203	194	250
Freight and shipping	68	55	61	78	131	179	247	219	188	178
All other current debits	73	73	76	73	90	107	120	413(2)	128	241
Total Current Debits	880	812	896	1,126	1,363	1,641	1,917	2,004	1,710	2,178
C. NET BALANCES- WITH THE UNITED STATES										
Merchandise trade adjusted	-72	-132	-128	-278	-344	-205	-87	+331	+15	-430
Net exports of non-monetary gold	+145	+161	+184	+203	+204	+184	+142	+110	+96	+96
Tourist and travel expenditures	+84	+68	+70	+58	+89	+55	+53	+61	+82	+83
Interest and dividends	-180	-193	-193	-204	-175	-172	-171	-161	-150	-204
Freight and shipping	-23	-16	-15	-29	-67	-87	-110	-73	-54	-66
All other current transactions	-31	-37	-34	-42	-25	+45	+154	-237	+41	-82
Total Current Account	-77	-149	-116	-292	-318	-180	-19	+31	+30	-603

(1) Subject to revision
(2) Includes $280 million special payments to U.S. Treasury

TABLE - XIII Current Transactions Between Canada and Other Foreign Countries, 1937 - 1946
(Millions of Canadian Dollars)

	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946 (1)
A. CREDITS- WITH OTHER FOREIGN COUNTRIES										
Merchandise exports adjusted	157	134	126	79	68	63	63	176	569	555
Tourist and travel expenditures	5	5	3	(3)	1	(3)	(3)	(3)	(3)	1
Interest and dividends	38	36	25	20	16	17	20	20	24	19
Freight and shipping	22	13	13	13	2	2	3	7	23	43
All other current credits	3	2	8	8	5	7	14	12	13	14
Total Current Credits	225	190	175	120	92	89	100	215	629	632
B. DEBITS- WITH OTHER FOREIGN COUNTRIES										
Merchandise imports adjusted	78	65	64	68	75	64	68	89	110	177
Tourist and travel expenditures	4	3	1	(1)	(1)	(1)	(1)	(1)	(1)	1
Interest and dividends	4	6	6	4	4	4	4	5	5	7
Freight and shipping	22	16	19	18	(2)	(2)	(2)	(2)	(2)	-
Canadian Overseas Expenditures	-	-	-	-	-	-	-	-	25	26
All other current debits	19	22	19	8	9	9	19	13	16	22
Total Current Debits	127	112	109	98	88	77	91	107	156	233
C. NET BALANCES- WITH OTHER FOREIGN COUNTRIES										
Merchandise trade adjusted	+79	+69	+62	+11	-7	-1	-5	+87	+459	+378
Tourist and travel expenditures	+ 1	+ 2	+ 2	-	+1	-	-	-	-	-
Interest and dividends	+34	+30	+19	+16	+12	+13	+16	+15	+19	+12
Freight and shipping	-	- 3	- 6	- 5	+ 2	+ 2	+ 3	+ 7	+23	+43
All other current transactions	-16	-20	-11	-	- 4	- 2	- 5	- 1	-28	- 8
Total Current Account	+98	+78	+66	+22	+4	+12	+ 9	+108	+473	+399
Mutual Aid (1) Included in Credits	-	-	-	-	-	-	9	102	102	20
Contribution to UNRRA	-	-	-	-	-	-	-	11	34	68
Military and other Relief	-	-	-	-	-	2	6	13	67	14
Export Credits and Advances	-	-	-	-	-	-	-	-	105	210

(1) Subject to revision
(2) Included in amount shown for United States
(3) Less than $500,000

Table XIV - Current Account of the Canadian Balance of Payments (Preliminary Statement), 1946.

(Millions of dollars)

	All Countries	United Kingdom	Other Sterling Area	United States	Other Foreign Countries: Cash Trade and Purchases with Export Credits(2)	Other Foreign Countries: Mutual Aid and Official Relief
Current Receipts						
Merchandise exports (adjusted) ...	2,343	626	269(1)	893	455	100
Receipts by War Supplies Ltd.	55	-	-	55	-	-
Net exports of non-monetary gold ..	96	-	-	96	-	-
Tourist expenditures	219	3	1	214	1	-
Interest and dividends	74	7	2	46	19	-
Freight	287	107	25	112	41	2
War Services	18	18	-	-	-	-
Inheritances and immigrants funds .	64	45	-	19	-	-
All other current receipts	185	28	3	140	14	-
Total Current Account	3,341	834	300	1,575	530	102
Current Payments						
Merchandise imports (adjusted) ...	1,822	138	129	1,378	177	-
Tourist expenditures	135	2	1	131	1	-
Interest and dividends	312	54	1	250	7	-
Freight	210	32	-	178	-	-
War expenditures	122	73	-	23	26	-
Inheritances and emigrants funds ..	33	2	-	31	-	-
All other current payments	249	38	2	187	22	-
Total Current Payments	2,883	339	133	2,178	233	-
Net Balance on Current Account	+ 458	+ 495	+ 167	- 603	+ 297(2)	+ 102
Net Balance on Current Account excluding Mutual Aid and Relief .	+ 351	+ 495	+ 162	- 603	+ 297(2)	-

(1) Including Mutual Aid of 5.

(2) Including trade financed by net Export Credits and advances of 210.

Table XV - Special and Capital Transactions between Canada and Empire Countries, 1937-1946

(Millions of Canadian dollars)

	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946(4)
Capital Credits										
Decrease in £ balances	-	-	-	-	-	818	-	4	-	15
Repayments on 1942 Loan	-	-	-	-	-	-	18	57	64	89
Investment in production assets	-	-	-	100	157	58	-	-	-	-
Financial Settlement by United Kingdom	-	-	-	-	-	-	-	-	-	150
Other credits	9	-	65	16	24	8	2	85	9	55
Total Credits (1)	9	(2)	65	116	181	884	20	146	73	309
Capital Debits										
Private transactions -										
Redemptions of securities	26	21	45	13	10	30	10	32	31	76
Repurchases of securities	20	12	5	28	36	8	26	27	41	58
Other capital payments	27	20	23	70	28	21	35	24	25	12
Official transactions -										
Repatriation of securities	-	-	75	137	188	296	4	2	1	1
Repatriation of production										
Assets - Fixed capital	-	-	-	-	-	-	205	2	-	-
Working capital	-	-	-	-	-	-	190	-	-	-
Increase in £ balances	-	-	-	82	728	-	-	-	1	-
War Loan to United Kingdom	-	-	-	-	-	700	-	-	-	-
Post War Loan to United Kingdom ..	-	-	-	-	-	-	-	-	-	540
Interim advances to United Kingdom (3)	-	-	-	-	-	-	-	-	164)	112
Interim advances to Other Countries (3)	-	-	-	-	-	-	-	-	45)	
Special payments	-	-	-	-	-	74	116	57	115	18
Total debits as above (1)	33	53	148	330	990	1,129	586	144	423	817
Special Gold and United States Dollar Transactions	-	-	2	248	-	23	143	55	33	150
Billion Dollar Contribution	-	-	-	-	-	1,000	-	-	-	-
Mutual Aid (4)	-	-	-	-	-	-	503	834	838	5

(1) For purposes of comparability, net security transactions are shown. Consequently gross capital credits and debits in 1937, 1938 and 1939 are less than in Tables VII and VIII where gross sales and purchases of securities are included. (2) Miscellaneous capital credits are netted in 1938. (3) Most of these advances were cancelled in the Financial Settlement with the United Kingdom. (4) Subject to revision.

Table XVI - Capital Transactions between Canada and non-Empire Countries, 1937-1946

(Millions of Canadian dollars)

	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946(4)
New issues of Canadian securities ...	86	38	155	-	-	-	146	92	91	198
Retirements of Canadian securities ..	140	79	131	41	31	25	308	166	179	453
Net new issues (+) or Net retirements(-)	- 54	- 41	+ 24	- 41	- 31(2)	- 25(2)	-162	- 74	- 88	-255
Net Sales (+) or Net Purchases (-) of Outstanding Securities -										
Canadian Securities	- 18	+ 48	+ 69	+ 15	+ 46	+132	+254	+183	+300	+227
United States and Foreign	- 7	- 7	+ 18	+ 18	+ 28	+ 24	+ 44	+ 42	+ 96	+ 64
Net Change in Liquid Reserves of Gold or U.S. $ ..... (Decline (+) Increase (-))	(3)	(3)	(3)	+ 79	+160	-144	-364	-278	-667	+251
Export Credits and Interim Advances ..	-	-	-	-	-	-	-	-	-105	-210
Other Capital Movements and Adjusting Entries (Net)	- 69	- 59	-164	- 45	+109	+152	+117	+ 77	+125	+ 77
Gross Credits on Capital Account ..	504(1)	356(1)	461(1)	167	385	351	657	543	460	619
Gross Debits on Capital Account ..	652(1)	415(1)	514(1)	141	73	212	768	593	799	465
Net Capital Transactions	-148	- 59	- 53	+ 26	+312	+139	-111	- 50	-339	+154
Mutual Aid (4)	-	-	-	-	-	-	- 9	-102	-102	- 20
Contribution to UNRRA	-	-	-	-	-	-	-	- 11	- 34	- 68
Military and Other Relief	-	-	-	-	-	- 2	- 6	- 13	- 67	- 14
Special Gold Transactions	-	-	+ 2	+248	-	+ 23	+143	+ 55	+ 33	+150

(1) Including offsetting security transactions amounting to 400 in 1937, 276 in 1938 and 203 in 1939. In the period of exchange control such transactions are omitted as purchases represent, in the main, switches of securities.
(2) Excluding refunding issues.
(3) Available data included in other capital movements.
(4) Subject to revision.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XVII - Revised Statement of Capital Transactions between Canada and all Countries, 1927 - 1936

	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
New Issues of Canadian Securities sold outside Canada	301	207	297	400	200	104	134	111	117	106
Retirements of Canadian securities owned outside of Canada	160	200	150	110	202	105	166	169	256	270
Net new issues (-) or net retirements (-)	+141	+ 7	+147	+290	- 2	- 1	- 32	- 58	-139	-164
Net Sales of Outstanding Securities										
Estimated (1)	-171	-126	- 2	+ 56	+ 45	+ 85				
Recorded							+ 51	+ 9	+ 51	+ 8
Direct Investments Transactions (2)	+ 35	+ 21	+ 18	+ 37	+ 10	- 28	- 59	- 45	- 44	- 62
Insurance Transactions	- 15	- 12	+ 19	+ 9	+ 34	- 1	- 1	+ 3	- 18	- 26
Net Change in external assets of Canadian Banks	+ 16	+ 87	+ 88	-	+ 28	+ 38	+ 24	- 19	-	+ 3
Monetary Gold (net)	- 7	+ 49	+ 37	- 36	+ 33	+ 3	+ 6	- 4	- 2	-
Other Capital Movements	+ 11	+ 6	+ 4	- 19	+ 26	-	-	-	-	-
Net Movement of Capital	+ 10	+ 32	+311	+337	+174	+ 96	- 11	-114	-152	-241
Net Balance on Current account	- 10	- 32	-311	-337	-174	- 96	- 2	+ 68	+125	+244
Including Net Exports of Non-Monetary Gold Balancing Item (3)	-	-	-	-	-	-	+ 13	+ 46	+ 27	- 3

(1) The principal revisions of figures previously published occur in this item. As complete records coveving the international trade in securities are not available before 1933 these transactions are estimated as the difference between all other recorded capital movements and the net balance on current account for the years from 1927 to 1932.

(2) These figures have been revised by the transfer of some transactions formerly included in this item to the current account.

(3) This balancing item reflects possible errors and the omission of transactions which cannot be measured statistically. In the years 1927 to 1932 errors and omissions are reflected in the item "Estimated Net Sales of Outstanding Securities".

Table XVIII - Capital Transactions between Canada and Other Countries, 1937-1946[2]

(Millions of Canadian dollars)

	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946[4]
Net retirements of Canadian securities held abroad including official repatriations -										
In Foreign Countries	- 54	- 41	+ 24	- 41	- 31	- 25	-162	- 74	- 88	-255
In Empire Countries	- 26	- 21	-120	-150	-198	-326	- 14	- 34	- 32	- 77
All Countries	- 80	- 62	- 96	-191	-229	-351	-176	-108	-120	-332
Net sales of outstanding securities by Canada (+) or Purchases (-)										
To or from Foreign Countries	- 25	+ 41	+ 87	+ 33	+ 74	+156	+298	+225	+396	+291
To or from Empire Countries	+ 20	- 12	- 5	- 28	- 36	- 8	- 26	- 27	- 41	- 54
All Countries	- 5	+ 29	+ 82	+ 5	+ 38	+148	+272	+198	+355	+237
Net Loans[3] and advances by Canadian Government to Other Countries (Increase (-)	-	-	-	-	-	-700	+ 18	+ 57	-250	-661[3]
Change in Liquid Reserves of Gold and United States Dollars (Increase (-) ..	(1)	(1)	(1)	+ 79	+160	-144	-364	-278	-667	+251
Change in Sterling Balances(Increase(-)	(1)	(1)	(1)	- 82	-728	+818	-	-	1	+ 15
Other Capital Movements	- 87	- 79	-122	+ 1	+262	+123	-427	+ 83	- 6	+136
Net Movement of Capital	-172	-112	-136	-188	-497	-106	-677	- 48	-689	-354
Mutual Aid [4] and 1942 Contribution .	-	-	-	-	-	-1,000	-512	-936	-940	- 25
Contributions to UNRRA, Military and Other Official Relief	-	-	-	-	-	- 2	- 6	- 24	-101	- 82

(1) Not available.

(2) For more detailed analysis see Tables XV and XVI.

(3) Excluding repayments of 5 on Wheat Loan to U.S.S.R. which are included in Other Capital Movements.

(4) Subject to revision.

Table XIX - Merchandise Trade Between Canada and Other Countries, 1933-1946

(Exclusive of gold and adjusted for balance of payments purposes)

(Millions of Canadian dollars)

		Empire			Non-Empire		
Credits from Exports	All Countries	Total	United Kingdom	Other Countries	Total	United States	Other Countries
1933	532	232	188	44	300	177	123
1934	648	299	234	65	349	226	123
1935	732	332	258	74	400	285	115
1936	954	427	342	85	527	369	158
1937	1,041	493	385	108	548	391	157
1938	844	442	337	105	402	268	134
1939	906	436	332	104	470	344	126
1940	1,202	699	542	157	503	424	79
1941	1,732	1,098	914	184	634	566	68
1942	2,515	1,541	1,424	117	974	911	63
1943	3,050	1,763	1,636	127	1,287	1,224	63
1944	3,590	1,970	1,796	174	1,620	1,444	176
1945	3,657	1,954	1,603	351	1,703	1,134	569
1946	2,398	895	626	269	1,503	948	555
Debits for Imports							
1933	368	114	80	34	254	205	49
1934	484	146	103	43	338	278	60
1935	526	166	110	56	360	299	61
1936	612	185	120	65	427	352	75
1937	776	235	148	87	541	463	78
1938	649	184	119	65	465	400	65
1939	713	177	106	71	536	472	64
1940	1,006	236	133	103	770	702	68
1941	1,264	279	137	142	985	910	75
1942	1,406	226	116	110	1,180	1,116	64
1943	1,579	200	100	100	1,379	1,311	68
1944	1,398	196	94	102	1,202	1,113	89
1945	1,442	213	100	113	1,229	1,119	110
1946	1,822	267	138	129	1,555	1,378	177
Net Credits (+) or Debits (-)							
1933	+ 164	+ 118	+ 108	+ 10	+ 46	- 28	+ 74
1934	+ 164	+ 153	+ 131	+ 22	+ 11	- 52	+ 63
1935	+ 206	+ 166	+ 148	+ 18	+ 40	- 14	+ 54
1936	+ 342	+ 242	+ 222	+ 20	+ 100	+ 17	+ 83
1937	+ 265	+ 258	+ 237	+ 21	+ 7	- 72	+ 79
1938	+ 195	+ 258	+ 218	+ 40	- 63	- 132	+ 69
1939	+ 193	+ 259	+ 226	+ 33	- 66	- 128	+ 62
1940	+ 196	+ 463	+ 409	+ 54	- 267	- 278	+ 11
1941	+ 468	+ 819	+ 777	+ 42	- 351	- 344	- 7
1942	+1,109	+1,315	+1,308	+ 7	- 206	- 205	- 1
1943	+1,471	+1,563	+1,536	+ 27	- 92	- 87	- 5
1944	+2,192	+1,774	+1,702	+ 72	+ 418	+ 331	+ 87
1945	+2,215	+1,741	+1,503	+ 238	+ 474	+ 15	+ 459
1946	+ 576	+ 628	+ 488	+ 140	- 52	- 430	+ 378

Table XX - Revised Estimates of Tourist Expenditures Between Canada and Other Countries, 1937-1946

(Millions of Canadian dollars)

Credits - Expenditures of Foreign Tourists in Canada	All Countries	Empire			Non-Empire		
		Total	United Kingdom	Other Countries	Total	United States	Other Countries
1937	166	12	11	1	154	149	5
1938	149	10	8	2	139	134	5
1939	149	9	7	2	140	137	3
1940	104	6	5	1	98	98	(2)
1941	111	3	2	1	108	107	1
1942	81	2	2	(2)	79	79	(2)
1943	88	1	1	(2)	87	87	(2)
1944	119	2	2	(2)	117	117	(2)
1945	165	2	2	(2)	163	163	(2)
1946	219	4	3	1	215	214	1
Debits - Expenditures of Canadian Tourists Abroad							
1937	87	18	16	2	69	65	4
1938	86	17	15	2	69	66	3
1939	81	13	11	2	68	67	1
1940	43	3	2	1	40	40	(2)
1941	21	3	2	1	18	18	(2)
1942	26	2	2	(2)	24	24	(2)
1943	36	2	2	(2)	34	34	(2)
1944	59	2	2	(2)	57	57	(2)
1945	83	2	2	(2)	81	81	(2)
1946	135	3	2	1	132	131	1
Net Credits (+) or Net Debits (-)							
1937	+ 79	- 6	- 5	- 1	+ 85	+ 84	+ 1
1938	+ 63	- 7	- 7	-	+ 70	+ 68	+ 2
1939	+ 68	- 4	- 4	-	+ 72	+ 70	+ 2
1940	+ 61	+ 3	+ 3	-	+ 58	+ 58	-
1941	+ 90	-	-	-	+ 90	+ 89	+ 1
1942	+ 55	-	-	-	+ 55	+ 55	-
1943	+ 52	- 1	- 1	-	+ 53	+ 53	-
1944	+ 60	-	-	-	+ 60	+ 60	-
1945	+ 82	-	-	-	+ 82	+ 82	-
1946	+ 84	+ 1	+ 1	-	+ 83	+ 83	-

(1) Excluding Newfoundland.
(2) Less than $500,000.

Table XXI - Estimated Distribution of Interest and Dividend Payments and Receipts Between Canada and Other Countries, 1937-1946

(Millions of Canadian dollars)

	All Countries	Empire			Non-Empire		
		Total	United Kingdom	Other Countries	Total	United States	Other Countries
Credits - Receipts of Interest and Dividends from Investments abroad							
1937	76	7	2	5	69	31	38
1938	66	5	2	3	61	25	36
1939	57	5	2	3	52	27	25
1940	52	3	2	1	49	29	20
1941	60	5	4	1	55	39	16
1942	67	7	5	2	60	43	17
1943	59	5	4	1	54	34	20
1944	71	9	8	1	62	42	20
1945	76	8	4	4	68	44	24
1946	74	9	7	2	65	46	19
Debits - Payments of Interest and Dividends to Non-Residents							
1937	302	87	85	2	215	211	4
1938	307	83	81	2	224	218	6
1939	306	80	78	2	226	220	6
1940	313	76	74	2	237	233	4
1941	286	68	66	2	218	214	4
1942	270	51	50	1	219	215	4
1943	261	52	51	1	209	205	4
1944	264	56	55	1	208	203	5
1945	253	54	53	1	199	194	5
1946	312	55	54	1	257	250	7
Net Credits (+) or Debits (-)							
1937	- 226	- 80	- 83	+ 3	- 146	- 180	+ 34
1938	- 241	- 78	- 79	+ 1	- 163	- 193	+ 30
1939	- 249	- 75	- 76	+ 1	- 174	- 193	+ 19
1940	- 261	- 73	- 72	- 1	- 188	- 204	+ 16
1941	- 226	- 63	- 62	- 1	- 163	- 175	+ 12
1942	- 203	- 44	- 45	+ 1	- 159	- 172	+ 13
1943	- 202	- 47	- 47	-	- 155	- 171	+ 16
1944	- 193	- 47	- 47	-	- 146	- 161	+ 15
1945	- 177	- 46	- 49	+ 3	- 131	- 150	+ 19
1946	- 238	- 46	- 47	+ 1	- 192	- 204	+ 12

Table XXII - Statistics on Canada's International Investment Position

A. Summary - Non-Resident Investments in Canada, 1926-1945

(Millions of Canadian dollars)

	1926	1930	1933	1939	1945
Held in United Kingdom	2,636.3	2,766.3	2,682.8	2,475.9	1,766.0
Held in United States	3,196.3	4,659.5	4,491.7	4,151.4	4,982.0
Held in Other Countries ...	170.0	188.0	190.0	286.0	347.0
Total - Non-Resident Investments in Canada ...	6,002.6	7,613.8	7,364.5	6,913.3	7,095.0

B. Summary - Book Value of United States Direct Investments in Canada in Companies Controlled in the United States by Forms of Investment, 1926-1945

(Millions of dollars)

	1926	1930	1933	1939	1945
Capital Stock	1,000.0	1,329.4	1,271.6	1,289.2	1,609.0
Bonds	187.6	336.3	338.3	305.8	290.0
Other Investments	214.9	327.0	323.4	285.9	401.0
Total	1,402.5	1,992.7	1,933.3	1,880.9	2,300.0

C. Summary - Canadian Assets Abroad, 1930-1945

(Excluding Investments of Insurance Companies)

(Millions of Canadian dollars)

	1930	1939	1945
Direct Investments in Businesses Outside of Canada	443	671	720
Portfolio Holdings of Foreign Securities	842	719	621
Government Credits	31	31	707
Net External Assets of Canadian Banks	180	(1)	(1)
Official Liquid Reserves (2)	(1)	444	1,667
	1,496	1,865	3,715

(1) Not available. (2) Including holdings of gold which at the end of 1945 had a Canadian dollar value of $388 million.

N.B. A more detailed analysis of British and Foreign Investments in Canada and Canadian Investments Abroad has been published in the Canadian Balance of International Payments, 1926-1945.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XXIII

BRITISH AND FOREIGN CAPITAL INVESTED IN CANADA, END OF 1945

Classification by Countries of Origin and by Types of Security
(Millions of Dollars)

Types of Security	United States (1)	United Kingdom (2)	Other Foreign Countries	Total Non-Resident Investment
Bonds and Debentures				
Dominion	682	-	44	726
Provincial	574	40	5	619
Municipal	194	112	6	312
Steam Railways	495	316	32	843
Other Corporations - controlled in Canada	158	46	16	220
Other Corporations - controlled outside of Canada	254	74	19	347
Total	2,357	588	122	3,067
Capital Stock of Canadian Companies				
Companies controlled in Canada	460	688	96	1,244
Companies controlled in the United States	1,610	57	16	1,683
Companies controlled in the United Kingdom	13	226	2	241
Companies controlled in Other Foreign Countries	-	-	19	19
Total	2,083	971	133	3,187
Other Corporation Assets				
Companies controlled in Canada	10	3	1	14
Companies controlled in the United States	401	-	-	401
Companies controlled in the United Kingdom	-	119	-	119
Companies controlled in Other Foreign Countries	1	-	22	23
Total	412	122	23	557
Miscellaneous Investments				
Real estate, mortgages, assets administered for non-residents, investment companies, etc.	130	85	69	284
Total	4,982	1,766	347	7,095

(1) - (2) Includes some investments held by nominees in the United Kingdom and the United States for residents of other countries.

Published by Authority of the Rt. Hon. C. D. Howe, M.P.,
Minister of Trade and Commerce

CANADA

DEPARTMENT OF TRADE AND COMMERCE

DOMINION BUREAU OF STATISTICS

INTERNATIONAL PAYMENTS BRANCH

THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

PRELIMINARY STATEMENT, 1947

OTTAWA
1948

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CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

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DEPARTMENT OF TRADE AND COMMERCE
DOMINION BUREAU OF STATISTICS - CANADA
INTERNATIONAL PAYMENTS BRANCH

Dominion Statistician: Herbert Marshall
Chief, International Payments Branch: C. D. Blyth

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

The international financial problems which became acute in 1947 are illustrated in the statement of the Canadian balance of international payments which summarizes Canada's commercial and financial relations with other countries during the year.

Although Canadian exports of goods and services were still greater than total imports in Canada's global accounts with all countries in 1947 there was a large loss of official reserves of gold and U.S. dollars. This loss arose chiefly because of the large amount of exports to the United Kingdom and other overseas countries financed by loans and export credits from the Canadian government at a time when there was a greatly enlarged current deficit with the United States. The surplus of credits on current account with all countries, excluding contributions of official relief of $38 million, was $47 million, but no convertible exchange was received from exports to overseas countries financed by export credits amounting to $563 million. In addition there were net outflows of capital of $154 million, mainly for the redemption of Canadian securities owned abroad which also lead to drawings upon Canada's official reserves, as well as the gold subscriptions of $74 million by Canada to the International Monetary Fund. These combined factors led to a loss of official reserves of $743 million during the year.

The principal changes which took place in 1947 in comparison with 1946, when there was a much smaller loss of official reserves, were the reduction in the current account surplus to $47 million from the surplus of $357 million in 1946 and a widening of the gaps in both the accounts with the United States and with overseas countries. The amount of disequilibrium in Canada's account with the United States was greater than ever before while in the accounts with overseas countries the credit balances were exceeded only by the balances in certain wartime years. The greatest change occurred in the growth in Canada's current deficit with the United States, the gap between receipts and expenditures increasing from $613 million in 1946 to $1,138 million in 1947. At the same time the current surplus with overseas countries increased from $970 million to $1,185 million, of which export credits and loans by the Canadian government financed $563 million. The corresponding financial aid from Canada in 1946 was $750 million. Finally, other capital movements were outward in 1947 in contrast to inward movements in 1946.

SUMMARY OF CANADA'S INTERNATIONAL ACCOUNTS CALENDAR YEAR - 1947

(Millions of dollars)

	All Countries	United Kingdom & Area	Other Overseas Countries	United States
Current Account				
Current Balance (Including Official Relief)	+ 85	+872	+351	-1,138
Contributions of Official Relief	- 38	-	- 38	-
Current Balances (Excluding Official Relief)	+ 47	+872	+313	-1,138
Capital Account				
Loan to the U.K. and Net Export Credits	-563	-423	-140	-
Other Capital Movements (2)	-154	+ 53	- 44	- 163(1)
Gold Subscription to International Monetary Fund	- 74	-	-	- 74(4)
Net Receipts of Convertible exchange from overseas countries	-	-505	-133	+ 638
Balancing item (3)	+ 1	+ 3	+ 4	- 6
Decline in Official Liquid Reserves (+)	+743	-	-	+ 743
	- 47	-872	-313	+1,138

(1) Including some capital transactions on account of other overseas countries.
(2) Including currency adjustments.
(3) The balancing item reflects errors and omissions.
(4) Although it does not represent a transaction with the United States, the Gold Subscription to the International Monetary Fund is included in the United States account, for brevity, as it was made in gold and consequently reduced official reserves.

N.B. In the capital account a minus sign designates an outflow of capital, or purchase of convertible exchange.

The reduced size of Canada's current surplus with all countries in 1947 resulted from the relatively small growth in current receipts (about 11%) compared with the more substantial growth (about 25%) in current expenditures abroad. The growth in imports was of basic importance in the transition in Canada's international accounts during the year. While higher prices for both exports and imports account for some of the increased value of commodity trade, there was also an appreciable growth in the volume of imports which was widely distributed as to types of commodities. This growth was affected by improving supplies of commodities in the United States as well as by the unprecedented

heavy Canadian demands for imports arising from the record levels of Canadian consumption and private investment, the gross national expenditure of Canada of $13.1 billion being 12% higher than in 1946. The aggregate volume of Canadian exports on the other hand does not appear to have been greatly different in the two years 1946 and 1947, although the composition showed some changes. The volume of Canadian exports in 1947 was affected by the size of agricultural crops which were below average, but some groups of exports, notably wood products, showed material increases. The total value of exports in 1947 was affected of course by contracts with the United Kingdom which in some instances were at prices less than those prevailing elsewhere in 1947.

Changes in International Investment Position

Although the change in Canada's net investment position during 1947 was small there were substantial changes in the form of Canada's foreign assets and consequently upon Canada's position with respect to different countries and currencies. Liquid reserves of gold and U.S. dollars declined by $743 million to a total of $502 million at the end of 1947, while the indebtedness of overseas governments to Canada increased substantially by a net amount of $454 million. Accordingly Canada's net investment position with overseas countries improved while Canada's net indebtedness with respect to the U.S. dollar area increased. But an important part of reduction in liquid reserves accompanied redemptions of Canadian securities owned abroad, particularly in the United States, and there was the gold subscription of $74 million to the International Monetary Fund. The change in net indebtedness to the U.S. dollar area from transactions recorded in the balance of payments statement was about one-half a billion dollars, or considerably less than the drop in official reserves. Other changes in Canada's investment position, not recorded in the balance of payments statement, arise from such factors as re-investments of earnings and other changes in the value of investments.

On the basis of capital movements during 1947 it would appear that the balance of indebtedness to all countries at the end of 1947 was of comparable size to the net indebtedness of Canada to all other countries of around $3.8 billion at the end of 1946. All of the factors affecting the value of private investments at the end of 1947 cannot be measured until later in the year however. At the end of 1946 externally owned investments of long term capital in Canada totalled about $7,130 million, around $5,135 million being investments held in the United States, about $1,645 million in the United Kingdom, and $350 million in other countries. Gross liabilities aggregated around $7.7 billion, when short term liabilities and the non-resident equity in Canadian assets abroad are added to the long term investments. Gross Canadian assets abroad at the end of 1946 totalled close to $3.9 billion, when liquid reserves held at that time of $1,245 million are added to outstanding loans and advances by the Canadian government to other countries of $1,362 million and privately owned investments abroad of around $1¼ billion.

Effects of World Conditions upon Canada

Developments in the Canadian balance of payments in 1947 illustrate the problem of the Canadian economy in the postwar world. Canadian expenditures in the United States, stimulated by continued high employment and economic activity, reached a new peak which was accentuated by shortages elsewhere abroad. But although Canadian exports of goods and services were as large as imports, sources of convertible exchange from large exports overseas were insufficient to

cover the expanded current deficit with the United States, as a large part, close to one-half, of the export balance with overseas countries was financed by export credits from the Canadian government. In order to maintain Canadian imports from the United States Canada's official liquid reserves were employed to cover a considerable part of the deficit with the United States. But, as this situation could not be maintained indefinitely, far reaching remedial measures were introduced in November when the Minister of Finance announced the series of measures to meet the U.S. dollar shortage.

A major factor contributing to Canada's U.S. dollar shortage was the slowness of European recovery which was still evident in 1946 and was further impeded and set back in 1947 by the adverse effects of the severe winter of 1946-47, poor crops in 1947, and an accumulation of dislocations from these and other sources which reduced the ability of the European nations to maintain imports without substantial financial assistance from the countries of the Western Hemisphere. A larger proportion of both industrial and agricultural production has been in North America than was the case before the war. Furthermore, existing food deficiencies in Europe and Asia were affected adversely by the unfavourable developments in 1947 with the result that the balance in production between the Eastern and Western Hemispheres was even further from equilibrium in 1947 than would have been the case had conditions been more normal. Consequently, European countries have had to import much in excess of their ability to export. In addition other sources of income available to European countries from services, shipping and investments have been less than prewar, further adding to international financial problems.

This slowness in recovery prevented most European countries from paying for more than part of their imports from the Western Hemisphere without financial aid or the use of liquid reserves and a wide-spread deterioration took place in the trading position of a great many nations. As available resources were reduced or became depleted most of the countries in Europe extended restrictions upon imports from the Western Hemisphere in 1947. Latin American countries also introduced or extended restrictions as well, as the dollar shortage became more pronounced. The suspension of the arrangements for the convertibility of sterling by the United Kingdom in August of 1947 was an example of the deterioration in international financial relations which set in during the last half of the year. Following this, countries of the sterling area introduced restrictions upon expenditures in Canada and other dollar countries. With this trend in the international background it became more apparent than ever that a successful restoration of the world economy is further deferred.

Canada's experience in 1947 demonstrated the vital importance to the country of income in convertible exchange if essential imports are to be maintained, whether this income comes from exports to European and other overseas countries or from exports to the countries of the Western Hemisphere. The absence of a substantial current account surplus in 1947 in contrast to the large surplusses in the current account in each of the preceding thirteen years points to the limitations upon Canada's ability to provide export credits and external assistance unless a large surplus should again emerge in Canada's current account from increased exports and reduced imports. Developments in 1947 further emphasize the extent to which traditional Canadian trading relationships depend upon a functioning world economy in which European nations will be again able to pay for pruchases in Canada with convertible exchange.

The pressing need for extraordinary financial measures to remedy the dislocations arising from abnormal international supply and demand situations has become more urgent than ever if a world economy is to be restored. Efforts like the European Recovery Program aimed at restoring European production and world trading relations are therefore of vital consequence to the future exchange position of Canada and consequently to the framework of the Canadian economy.

Remedial Measures Introduced by the Canadian Government

The measures introduced in November by the Canadian Government because of the loss of official reserves were designed both to conserve the expenditure of U.S. dollars and to provide for increased receipts of dollars. The most extensive measures were the restrictions upon imports. These were of a non-discriminatory character and took the form of prohibiting imports of a variety of consumer goods and certain other articles and the reduction of the volume of imports of a variety of other commodities which were placed under quota. The quota system had the effect of reducing imports from the group of scheduled countries which includes the United States and certain other countries not known to be short of U.S. dollars, and of permitting increases in imports of the same commodities under quota from non-scheduled countries. At the same time it was announced that other imports, mainly machinery and capital goods, were to be dealt with on a selective basis. Another measure was the application of special excise taxes on certain consumers durable goods which have a substantial U.S. dollar content. The restoration of restrictions upon pleasure travel involving expenditures of U.S. dollars was another means adopted for reducing expenditures.

Potential sources of new receipts of U.S. dollars were introduced by tariff reductions negotiated at the Geneva meetings of the Conference on Trade and Employment, with more favourable entry into United States markets being obtained for many Canadian commodities, both primary and secondary. Other special government efforts are also to be directed towards expanding and diverting Canadian exports to the United States and other dollar countries. At the same time, in order to stimulate gold production, the government announced its intention of providing special assistance to the production of gold. Finally, arrangements for a credit to the Canadian government of $300 million from the Export-Import Bank of Washington, to be available during 1948, were announced at the same time, as another source of U.S. dollars to supplement the remaining official reserves.

TRANSACTIONS WITH THE UNITED KINGDOM AND STERLING AREA

The gap between British current receipts and expenditures in Canada was considerably wider in 1947 than in 1946 as Canadian exports to both the United Kingdom and other countries of the sterling area reached peacetime peaks. The balance of credits on current account with the United Kingdom from all exchanges of goods and services rose from $500 million in 1946 to $632 million in 1947. The credit balance with other sterling area countries shows an equally impressive rise, from $164 million to $240 million in 1947. The growth in the value of Canadian exports was the principal change affecting the current account balance with British countries in 1947. British official contracts for many of

the chief foodstuffs made up a major part of Canadian exports to the United Kingdom in 1947 as in 1946. Bulk contracts for raw materials like lumber and metals were another important element in British purchases. The growth in the value of exports occurred chiefly in wheat and flour and some other agricultural products, and in lumber and forest products. Other important groups of exports like non-ferrous metals, chemicals and bacon were about the same value as in 1946.

While imports from both the United Kingdom and from the other countries of the sterling area were also appreciably higher in 1947, the gain was not sufficient to offset the important decline in overseas expenditures by the Canadian government. The improvement in the value of imports from the United Kingdom which did occur was most notable in textiles, although many other types of British manufactured goods first began to re-appear in volume in 1947. Textiles made up about one-half of all imports from the United Kingdom in 1947, an even larger percentage of purchases than in 1946 or in prewar years.

Other changes in current transactions with the United Kingdom were relatively small with the exception of the large drop of $73 million in war expenditures. These payments in 1946 concluded the wartime expenditures in connection with the maintenance of the Canadian armed forces overseas. Credits on freight and shipping account were somewhat higher than in 1946 according to preliminary returns. Payments to Britain on freight and shipping account were a little larger mainly because of heavier expenditures in the United Kingdom by Canadian shipping companies. Payments of interest and dividends by Canada to the United Kingdom of $51 million were slightly less than in 1946 due to a decline in interest arising from the continued repatriation of bonds, but dividend payments were higher than in 1946.

Unilateral receipts arising out of inheritances and the unblocking of British estates, and transfers of immigrants' funds continued to be heavy. The latter transfers increased during the year as the volume of immigrants, other than war brides, from Britain to Canada increased. Besides including funds transferred at the time of migration the receipts include subsequent transfers permitted by the British government to persons who migrated in earlier years. Some declines occurred in other personal transfers of funds to Canada during the year, however, with the return of the Canadian service personnel to Canada. But personal remittances to Britain continued to be large. Private shipments to Britain of gifts in kind, which are believed to have been quite substantial are not included in the balance of payments because of lack of accurate records of the value of small parcels.

Canadian travel expenditures in the United Kingdom increased sharply in 1947 following the return of some passenger liner services and the expansion of trans-Atlantic air travel. Expenditures estimated at $9 million in 1947, were still considerably less than the comparable amounts in prewar years, comparing with $16 million in the United Kingdom in 1937 including passenger fares to British ships. British travel to Canada also increased rapidly in the early part of 1947, before pleasure travel was reduced in the latter part of the year with the re-introduction of British travel restrictions. British expenditures on travel in Canada of about $7 million in 1947 compare with an estimated $11 million in 1937.

Non-merchandise transactions with other sterling area countries were relatively small. There was an increase in Canadian travel expenditures in the British West Indies and in personal and business remittances from Canada, and some increase in income receipts by Canada, and in earnings from inland freight

on exports. Income of Canadian ships on exports to other Empire countries was comparable to 1946 according to preliminary returns.

COMMODITY TRADE BETWEEN CANADA AND OTHER EMPIRE COUNTRIES
EXCLUDING THE UNITED KINGDOM AND NEWFOUNDLAND, 1937,1946 AND 1947

(Millions of dollars)

	Exports			Imports			Net Trade		
	1937	1946	1947	1937	1946	1947	1937	1946	1947
Australia	30.6	38.2	60.3	12.1	19.8	14.2	+18.5	+ 18.4	+ 46.1
British South Africa	16.6	68.6	67.1	8.2	7.9	4.3	+ 8.4	+ 60.7	+ 62.8
Eire	4.4	8.0	17.6	-	-	0.1	+ 4.4	+ 8.0	+ 17.5
India	4.7	49.1	42.9	9.5	27.9	42.2	- 4.8	+ 21.2	+ 0.7
New Zealand	14.7	16.1	37.4	7.6	12.0	10.8	+ 7.1	+ 4.1	+ 26.6
British Guiana	1.5	7.1	10.3	5.6	12.2	12.4	- 4.1	- 5.1	- 2.1
British West Indies.	11.5	49.1	64.9	12.2	20.9	20.6	- 0.7	+ 28.2	+ 44.3
All other (excluding Newfoundland)	11.0	32.8	61.7	31.6	29.1	51.0	-20.6	+ 3.7	+ 10.7
Sub-Total	95.0	269.0	362.2	86.8	129.8	155.6	+ 8.2	+139.2	+206.6
Newfoundland	9.1	38.2	55.1	2.5	9.3	9.4	+ 6.6	+ 28.9	+ 45.7

N.B. Above figures are not adjusted for balance of payments purposes.

Commodity Trade with Other Empire Countries

The balance of merchandise trade with Empire countries other than the United Kingdom and Newfoundland showed a marked expansion in 1947, rising to $206 million from $139 million in 1946 as is shown in the accompanying table. There were large export balances with each of the Dominions except India. The expansion was particularly large in the case of Australia and New Zealand due mainly to increased exports. The export balance with British South Africa was still the largest single source of credits although about the same size as in 1946 and a smaller proportion of the export balance from trade with the whole group of countries. A much larger export balance also resulted from heavier exports to Eire and the British West Indies. Trade with India, in contrast, was closer to balance due to a large increase in imports and some decline in exports during the year. While exports to other Crown Colonies and Dependencies almost doubled, the export balance was only slightly higher as imports also increased, notably due to purchases of rubber and tin from British Malaya. The great expansion in exports to Empire countries was affected partly by the removal of import restrictions in British countries in 1946, many of which were reimposed in the latter part of 1947. Improved supplies of many Canadian commodities, notably automobiles and parts, also contributed to the increase in volume. Shipments of lumber to these countries were also heavier than in the previous year. Much of the gain in imports can be attributed to a few commodities like rubber and tin coming back into supply.

Increases in the aggregate of imports were more moderate because of limited supplies of many of the tropical foods and raw materials exported to Canada by this group of countries.

Capital Transactions with the Sterling Area

The British current account deficiency in Canada was financed chiefly by drawings on the Canadian loan and by sales of convertible exchange. Drawings of $423 million on the Canadian loan to the United Kingdom amounted to about one-half of the current account balance with the sterling area. These drawings compare with $540 million in 1946 making a total of $963 million of the loan of $1,250 million drawn to the end of 1947. Receipts of convertible exchange from the United Kingdom totalled $505 million during 1947. These receipts were specially negotiated transfers between the British and Canadian governments and were generally related to the amount of British drawings on the Canadian loan as Canada's U.S. dollar position placed limitations upon the rate at which the loan might be used to finance the British deficiency in Canada. As no convertible exchange had been received from the United Kingdom in 1946 following the receipt of gold in March of that year in connection with the Settlement of War Claims receipts of convertible exchange in 1947 should be related to the total British drawings on the Canadian loan of $963 million to the end of 1947. While the United Kingdom at the beginning of 1947 introduced arrangements for the convertibility of sterling with respect to transactions with Canada and a number of other countries it should be noted that these arrangements during their period of duration from January to August 21 had only minor effects upon the way in which transactions were carried out between Canada and other countries.

In addition to the drawings on the Canadian loan to the United Kingdom there were outflows for the redemption of Canadian securities of about $41 million and repurchases of about $9 million of outstanding Canadian securities from the United Kingdom. Both of these types of repatriations of securities by Canada were less than in 1946 and earli[illegible] and as repayments in 1947 on the 1942 loan were mainly related to capital outflows taking place in 1946 the total repayments on that loan of $104 million in 1947 exceeded outflows through security transactions in the year. About $368 million of the 1942 loan was still outstanding at the end of 1947. Other capital movements between Canada and the sterling area were largely offsetting when certain currency adjustments to transactions appearing elsewhere in the accounts are included. Inflows for British direct investments in Canada exceeded outflows from Canada for Canadian direct investment in the sterling area, but there were outflows from principal repayments and the liquidation of British owned assets in Canada.

CURRENT TRANSACTIONS WITH THE UNITED STATES

Current Deficit

The current account deficit with the United States in 1947 was greater than ever before. The deficit rose from the previous peak of $613 million in 1946 to a new record of $1,138 million in 1947. This deficit was about ten times the size of the deficit with the United States in 1939 and between three or four times the wartime peak of $318 million in 1941. This compares with $437 million in 1929 the largest deficit reached in any prewar year. Such extraordinary disequilibrium in current transactions with the United States at a time when receipts

of convertible exchange from overseas countries were limited by the large amount of exports financed by export credits and loans from the Canadian government led to the Canadian shortage of U.S. dollars and the necessity of reducing expenditures of United States exchange.

FACTORS IN CANADA'S CURRENT ACCOUNT
DEFICIT WITH THE UNITED STATES

(Millions of dollars)

	1937	1946	1947
Merchandise Trade (1)	- 72	-430	- 892
Non-monetary gold	+145	+ 96	+ 99
Tourist expenditures	+ 84	+ 86	+ 83
Interest and dividends	-180	-209	- 238
Freight and shipping	- 23	- 68	- 115
All other current transactions	- 31	- 88	- 75
Total Current Deficit	- 77	-613	-1,138

(1) Including receipts by War Supplies Ltd. of $55 million in 1946 and $13 million in 1947.

Great Rise in Imports

Although current receipts from the United States rose by $135 million current expenditures increased $660 million or about 30 % during the year. The predominant part of this increase in expenditures occurred in imports of merchandise, purchases of which rose from $1,378 million in 1946 to $1,951 million in 1947. Part of the phenomenal growth can be attributed to the higher prices in the United States. But increased volumes of imports arising from improved supplies in the United States and extraordinarily heavy Canadian demands were responsible for possibly about one-half of the rise. Better supplies were particularly notable in important groups of commodities like textiles and metal products. United States reconversion was more rapid than recovery in many of the overseas countries which had been sources of supply in more normal times, consequently the proportion of Canadian imports from the United States was greater than usual, further adding to the exceptional disequilibrium with the United States.

The Canadian conditions which gave rise to these unprecedented demands are of course unusual. Canadian consumption and private investment were both at record levels with the gross national expenditure at $13.1 billion or 12% higher than in 1946. The exceptionally high levels of demand led to more of the Canadian commodities which were produced being consumed in Canada, and to the rise in the volume of imports. Many of the demands were for goods and services not normally available in Canada, while other demands were deflected towards foreign goods and services by the shortages in Canada.

The combined effects of these exceptionally heavy demands were to increase the ratio which Canadian imports of merchandise represent of the gross national product of Canada to a new high of 19.4% in 1947, compared with 15.6% in

1946, which had been the highest percentage in any year during the period from 1938 for which comparable statistics on the gross national product are available. But this ratio in 1947 may not have been quite as high as during earlier periods of high incomes when earlier investment booms were in progress.

Possibly the most significant development in demands giving rise to greater imports from the United States has been the expansion of private investment which occurred in Canada in 1947. New developments of productive capacity, many of them long deferred, have combined with renovations and replacements to make the total of investment and construction of record size. Gross home investment in plants, equipment and housing increased by more than one-half in value in 1947 from 1946.

Past periods of investment booms in Canada have been accompanied by current account deficits and high imports. This relationship stands out both in the development boom which immediately preceded the First World War and which was at its peak during the years 1911 - 1913 and also in the period between 1928 and 1930 when investment activity was again at a peak preceding the depression of the interwar years. While conditions which generated the booms in these earlier periods had special factors distinguishing them from the investment activity in Canada today the analogies are close enough to further emphasize the close connection between investment activity in Canada and the level of Canadian imports from the United States. Canada's import demand for commodities of the types normally purchased in the United States may be expected to be high so long as home investment and economic activity are high unless other sources of supply should be developed in the future. The ratio of home investment to the gross national expenditure during the last year or so has probably been comparable to the high ratio which existed in the pre-depression period of highest activity. An important contrast between 1947 and these earlier periods lies in the fact that Canada still had a small current account surplus with all countries in 1947, whereas in the earlier periods of boom the current account with all countries showed a deficit.

IMPORTS INTO CANADA FROM THE UNITED STATES, 1937, 1946 AND 1947

(Millions of Canadian dollars)

	1937	1946	1947	Increase from 1946 to 1947	1947 Percentage Increase over 1946
					%
Agricultural and vegetable products	44.4	155.5	169.7	+ 14.2	9.1
Animals & animal products	12.6	33.9	57.2	+ 23.3	68.9
Fibres, textiles and textile products	39.1	140.2	217.0	+ 76.8	54.8
Wood, wood products and paper	27.5	64.2	82.8	+ 18.6	28.9
Iron and its products ...	173.9	467.0	725.9	+258.9	55.4
Non-ferrous metals and their products	31.1	84.1	120.3	+ 36.2	43.1
Non-metallic minerals and their products	104.7	274.8	364.3	+ 89.5	32.5
Chemicals and allied products	22.5	83.6	99.6	+ 16.0	19.1
Miscellaneous commodities	34.8	102.0	137.9	+ 35.9	35.2
Total Imports (1)	490.6	1,405.3	1,974.7	+569.4	40.5

(1) These statistics have not been adjusted for use in the statement of the balance of payments.

Investments in industrial plants and equipment have a particularly high U.S. dollar content giving rise to imports of machinery and industrial equipment, and steel and other materials purchased in the United States. The general rise in Canadian inventories also had a substantial U.S. dollar content, particularly in commodities such as textiles. There was an increase of 64% in the value of Canadian inventories from the low levels where these had been during the period of reconversion to civilian production. The combined imports arising from these various forms of private investment were very substantial and were one of the chief contributing factors to the unprecedented rise in imports which were particularly heavy in items connected with this kind of demand. The exceptional strength of these demands is indicated by the ratio of gross home investment to gross national expenditure which was over 21% in 1947 compared with about 15% in 1946 and around 11% immediately before the war in 1938.

The strength of demands arising from the investment boom and demands for durable goods generally is illustrated by the sharp rise in imports of metal products. Imports of this group of commodities from the United States accounted for more than one-half of the increased value of all imports from that country in 1947. Imports of iron and non-ferrous metal products made up 43% of the total imports from the United States and increased from $551 million in 1946 to $846 million in 1947. Many of the direct demands arising from Canadian investment activities are to be found in these groups. An example is provided by imports of non-farm machinery which aggregated close to $200 million and imports of electrical apparatus of over $60 million. Another important form of demand for durable goods is reflected by imports of agricultural machinery of close to $100 million. These groups of imports also included essential industrial materials such as steel which are indirectly related to many investment demands. Imports of automobile parts and other metal components for the production of durable goods in Canada for both Canadian and export markets are also included and imports of household equipment and passenger cars show the abnormally high Canadian demands for consumers durable goods.

Other important gains in imports also arose from the exceptional level of economic activity in Canada, as for instance imports of fuel, particularly crude petroleum and petroleum products as well as coal. The principal gain in imports of consumer goods from the United States was in textiles and one of the most conspicuous rises in this field was in cotton products. Raw cotton imports were also higher and gains showed in imports of artificial silk fabrics and yarns and various textile products purchased in the United States. Other types of commodities imported from the United States also generally increased appreciably but gains were usually less precipitous and less conspicuous than in the case of the group already noted.

The upward trend in prices in the United States in 1947 was of course a major contributor to the record value of Canadian purchases from that country. The rise in United States prices in the last half of 1946 accompanying the decontrol of prices was very sharp and in itself enough to add materially to Canadian requirements of U.S. dollars. The general increase which continued through 1947 in the prices of most important commodities imported by Canada added still further to the cost. The cost to Canada of price increases of the size experienced between the first part of 1946 and most of 1947 must be reckoned in terms of hundreds of millions of dollars or a substantial part in the decline in U.S. dollar reserves. A large part of the increase in 1947 of $569 million in the value of Canadian imports from the United States, possibly as much as one-half or more, can be attributed to this source. While there were also significant rises in the price of many Canadian exports to the United States, particularly

in the wood products group the impact of price rises was to greatly increase net expenditures of U.S. dollars by Canada because of the much greater volume of Canadian imports and the wide extent of the disequilibrium in the merchandise accounts with the United States.

COMMODITY TRADE BETWEEN CANADA AND THE UNITED STATES, BY MONTHS - 1947

(Millions of dollars)

	Exports[1] to U.S.A.	Imports from U.S.A.	Import Balance	Net Exports of Non-Monetary Gold
January	80.6	136.5	- 55.9	9.0
February	71.3	138.5	- 67.2	6.9
March	84.9	165.1	- 80.2	6.8
April	90.0	182.1	- 92.1	6.4
May	82.1	184.1	-102.0	8.2
June	84.2	174.7	- 90.5	8.6
July	84.3	168.9	- 84.6	10.1
August	83.3	155.3	- 72.0	7.5
September	89.3	163.0	- 73.7	8.4
October	104.2	190.4	- 86.2	9.2
November	94.6	174.4	- 79.8	7.2
December	107.8	141.7	- 33.9	11.0
	1,056.6	1,974.7	-918.1	99.3

(1) Including Domestic and Foreign produce but excluding gold.

N.B. The above statistics of commodity trade are not adjusted for use in the balance of payments statement.

Smaller Rise in Exports

The increase in the value of Canadian exports to the United States in 1947 was much more moderate in both amount and percentage than the rise in imports. Exports increased to $1,046 million from $893 million in 1946, a rise of $153 million or about 17%. Most of this increase was concentrated in exports of newsprint, pulp and paper and other wood products. Other important groups of exports like non-ferrous metals were relatively stable in aggregate value although considerable changes occurred in individual commodities. Other primary products sold to the United States generally only changed to a moderate extent in total. Although the volume of some commodities was down, the maintenance in value was due to higher prices or to rises in the volume of other commodities. A notable decline occurred in exports of grains to the United States due to short supplies. In contrast exports of wood products to the United States were significantly higher in volume as well as in price, production of pulp and paper being considerably higher during the year. The relative stability of Canadian exports to the United States has been due to the fact that limitations on available

supplies of the main staple commodities have prevented large increases occurring except where productive capacity was expanded or where supplies were diverted to the United States. Receipts from non-monetary gold exports were only slightly higher than in 1946, increases in output being retarded by labor shortages and other obstacles to production.

Trend in Non-Commodity Transactions

Although the largest single contributor to the increased current deficit with the United States was the rise in merchandise trade there were other important contributors. Larger outlays on both income and transportation account were outstanding among the changes in non-commodity transactions. In addition, non-recurring receipts of dollars through War Supplies Ltd., contracted from $55 million in 1946 to $13 million in 1947. There were, however, some substantial unusual receipts from the United States government in 1947 representing refunds of war expenditures made during earlier periods and in 1946 there had been some appreciable purchases of surplus assets and equipment from the United States government which did not recur in 1947. On the other hand the balance of receipts from the tourist trade was less than in 1946 because of the large rise in Canadian travel expenditures in the United States. Miscellaneous current payments including services and remittances of various kinds were also somewhat heavier than in the previous year while corresponding groups of receipts, exclusive of non-recurring government receipts referred to, were lower than in 1946. Unilateral transfers to the United States were heavier in 1947 mainly because of the volume of Canadian emigration to the United States which lead to larger withdrawals of emigrants funds than in the previous year.

Higher Transportation Costs

The increase in net payments to the United States on freight and shipping account was quite large, net payments rising from $68 million in 1946 to $115 million in 1947. Most of the change occurred in payments to United States railroads for the transportation of commodities to the Canadian border. The increased volume of imports was responsible for a large part of the rise. Higher freight rates in the United States, which were raised several times during 1946 and 1947 in general increases, also added to Canada's transportation costs in the United States. Heavier imports of coal in 1947 added a considerable part of the increased freight costs. About three-quarters of the total payments to the United States for transportation were for rail freight. Payments to the United States on shipping account were larger in 1947 partly from the increased volume of petroleum imports. Canadian receipts for transportation from the United States remained fairly stable mainly because the volume of exports in the aggregate did not change greatly during the year. Receipts of Canadian railways from carrying exports to the United States border made up about one-half of the total. The remainder was divided between receipts on shipping account and intransit earnings of Canadian railways and the expenditures of United States operated railways in Canada. Details on the freight account in 1946 appear on page 20.

Higher Income Payments

The rise in net income payments to the United States from $209 million in 1946 to $238 million in 1947 was substantial in itself and also impressive in light of the previous records reached in 1946 in both payments and net payments. The further increase in 1947, when total payments amounted to $274 million, was due to the continued in-

crease in dividends paid by Canadian companies to shareholders in the United States. Dividends rose from $149 million in 1946 to a new high level of $182 million in 1947 excluding taxes. Most of the increases occurred in dividends paid by Canadian subsidiaries to U.S. parent companies. Larger earnings as well as some withdrawals of income accumulated in earlier years contributed to the rise. Dividends paid by publicly owned companies to shareholders in the United States were somewhat higher in 1947. Payments of interest on Canadian bonds and debentures held in the United States declined from about $101 million in 1946 to an estimated $92 million in 1947, due to the redemptions of Canadian bonds held in the United States, and refinancing of high coupon issues at lower interest rates, and the absence of the premium on United States dollars. Canadian receipts of income from the United States dropped from $41 million in 1946 to $36 million in 1947 in terms of Canadian dollars. The decline mainly resulted from lower dividends from Canadian owned direct investments in the United States. Dividends from portfolio investments in United States securities were slightly larger than in 1946. Some other types of income receipts and payments, other than dividends and bond interest, are included in the miscellaneous current items of receipts and expenditures.

Reduced Net Receipts from Tourists

Receipts from United States tourists exceeded Canadian travel expenditures in the United States by $83 million in 1947 compared with net receipts of $86 million in 1946. This decline in net receipts was due to a greater rise in Canadian expenditures in the United States than in receipts from tourists. The latter rose from $216 million to $235 million while Canadian travel expenditures in the United States expanded from $130 million to $152 million. Both types of expenditure had been at record levels in 1946. The further gains which occurred in 1947 were proportionately greater in both volume and expenditures in the case of Canadian travellers to the United States. The volume of Canadian travel to the United States by automobile increased sharply. The number of automobiles returning for more than 24 hours increased by 25% while the increase in cars on shorter visits was 16%. Average expenditures in the United States were also significantly higher for many types of traffic as the costs of travel rose and as supplies of merchandise available for purchase improved. Some reduction in the amount of Canadian expenditures in the United States occurred after November 18 with the introduction of restrictions upon expenditures by Canadians on pleasure travel involving U.S. dollars. The wide degree of unbalance in relative levels of Canadian and United States travel expenditures is shown by the average per capita expenditures. Canadian expenditures on travel in the United States in 1947 were around $12 per capita compared with American per capita expenditures on travel in Canada of not much more than $1.50. The number of United States tourists coming to Canada was greater in 1947 than in 1946 with the largest increase occurring in the number of automobile tourists. The volume of American cars entering under customs permits, which in earlier periods represented the bulk of the tourist traffic, rose 12%, but increases in travel by through bus and airplane were only moderate and there were decreases in train and boat traffic to Canada. Average expenditures by American tourists in Canada generally did not increase as much as was the case with the average expenditures of Canadians in the United States and in some instances the averages were lower than in the previous year.

TRANSACTIONS WITH OTHER FOREIGN COUNTRIES

Receipts of Convertible Exchange

Although the export balance with other foreign countries was substantial in 1947 a major part did not yield convertible exchange as a large volume of exports was financed by export credits or other special means. Net exports of goods and services to other foreign countries were $351 million, but official contributions of relief financed $38 million of this, leaving $313 million to be financed by capital outflows or receipts of convertible exchange. Net export credits from the Canadian government financed $140 million of this current balance. A considerable amount of the remainder was financed by various types of capital outflow from Canada mainly to special arrangement countries. Redemptions and sales of securities, withdrawals of some income accumulated during the war and other liquidations of assets, and decreases in balances in Canada, resulted in capital outflows in Canadian dollars with this group of countries of about $44 million.

Net receipts of convertible exchange from foreign overseas countries as a group are estimated at $133 million after allowing for certain exchange adjustments to transactions in the current account. Among the sources of convertible exchange was $20 million of free funds transferred by UNRRA to cover expenditures in Canada, and approximately $100 million in convertible exchange received from borrowing governments and from private exports to borrowing countries in both Europe and Asia. But net receipts from the borrowing countries were considerably less, however, as most of the imports into Canada of around $44 million from these countries was paid for in convertible exchange. There were also net receipts of U.S. dollars from private commercial trade with other countries. In addition there were receipts of convertible exchange from inland freight and from the services of Canadian ships in excess of Canadian payments on freight and shipping account to these countries. But, there were large outlays by Canada for personal and benevolent remittances and other service transactions.

Most of the net receipts of convertible exchange originated in trade with Europe. Trade with countries in Asia also led to a moderate balance in receipts of U.S. dollars but there was a deficit from commodity trade with Latin America as a whole. In trade with South America there was a small export balance but this was more than offset by an import balance with Latin American countries in Central America and the West Indies.

Export Credits and Contributions

A substantial part of exports to Europe and Asia continued to be financed by the Canadian government in 1947 as in other recent years. Net export credits extended to foreign countries in 1947 amounted to $140.0 million compared with $209.7 million in 1946 and $104.6 million in 1945. Actual drawings under the Export Credits Insurance Act Part II amounted to a little over $147 million but $5.2 million was used to repay interim advances outstanding at the end of 1946 and $2.1 million was used to make repayments of principal. The amount of the $594.5 million of Export Credit Loans authorized which had not been drawn by the end of 1947 amounted to about $146.9 million. Net outstanding loans and advances including interest adjustments aggregated close to $455 million at the end of 1947. Most of the net export credits in 1947 were spent on goods exported during the year with a minor part spent on transportation and other services. There was no wide divergence during the year between total exports of goods

financed by export credits, and disbursements of funds, as prepayments were offset largely by shipments of goods paid for in earlier periods.

Contributions in 1947 by Canada of goods and services financed out of Canadian contributions to UNRRA and Post-UNRRA Relief amounted to about $38 million. Most of this aid took the form of commodities shipped from Canada during the year to such destinations as Austria, China, Czechoslovakia, Greece, Italy, Poland, the U.S.S.R. and Yugoslavia. A small part of the aid was in the form of Canadian trucks and military stores which had been shipped to Europe in earlier periods.

In addition to these official contributions there were substantial private shipments from Canada of food and other goods as gifts and relief by individuals and private organizations. Total gifts and donations recorded in Canadian export statistics had a value of over $10.6 million but this is exclusive of small individual shipments which are believed to have been substantial.

POSTWAR LOANS AND ADVANCES TO OTHER COUNTRIES BY THE CANADIAN GOVERNMENT

(In millions of Canadian dollars)

	Export Credit Loans Authorized	Net Amounts Drawn (1)			Amounts not drawn by Dec. 31,1947
		1945	1946	1947	
A. Export Credits					
France	242.5	34.9	108.9	54.6	44.1
Netherlands	125.0	29.8	34.2	40.6	20.4
Belgium	100.0	22.5	30.1	12.3	33.0
China	60.0	-	16.5	16.1	27.4
Norway	30.0	6.2	10.2	3.6	10.0
Czechoslovakia	19.0	0.7	3.2	8.2	6.9
Netherlands Indies ...	15.0	0.6	4.8	4.6	5.0
U.S.S.R.	3.0	9.9	1.8	-	0.1
Total - Foreign Countries	594.5	104.6	209.7	140.0	146.9
B. Loan to United Kingdom	1,250.0	-	540.0	423.0	287.0

(1) Net amounts drawn include interim advances as well as drawings on Export Credit loans less repayments of interim advances and loans. All advances had been repaid by December 31, 1947, with the exception of $8.8 million to the U.S.S.R.

CAPITAL MOVEMENTS WITH THE U.S. DOLLAR AREA AND CHANGE IN RESERVES

As net receipts of convertible exchange from the credit balance with overseas countries of $1,185 million were only $638 million in 1947 because of large export credits, there was a substantial loss of reserves arising from current transactions. The current deficit with the United States exceeded

receipts of convertible exchange from other countries by $500 million. In addition there were net capital outflows of $163 million to the United States dollar area, and Canada's gold subscription to the International Monetary Fund of $74 million which also contributed to the reduction in official liquid reserves during 1947 of $743 million. These reserves amounted to $502 million at the end of 1947 compared with $1,245 million at the end of 1946.

These various factors affecting the level of Canada's official liquid reserves are summarized in the following statement.

	$ mm
Current account deficit with United States	-1,138
Net receipts of convertible exchange from overseas	+ 638
Net current deficiency	- 500
Net redemption of Canadian securities	
Payable in Foreign currencies	- 183
Payable in Canadian dollars	- 40
Total net redemptions	- 223
Net repurchases of outstanding Canadian securities	- 9
Redemptions and sales of U.S. and foreign securities	+ 13
All other capital movements	+ 56
Gold subscription to International Monetary Fund	- 74
Balancing item - errors and omissions	- 6
Decline in official liquid reserves (+).....	+ 743

The general effect of these changes on capital account with the United States dollar area was to increase the balance of Canadian indebtedness to the United States dollar area by close to one-half billion dollars when account is taken of the decline in official reserves. But capital movements with the U.S. dollar area, apart from the reduction in the official reserves had the effect of reducing Canadian indebtedness to the United States as there were predominant outflows of capital for the redemption of securities which were only partly offset by inflows for direct investment in Canada and other purposes.

Security transactions made up the largest part of the capital movements as in recent years but the principal group of transactions in 1947 was the redemption of issues payable in U.S. dollars. Net issues of Canadian securities payable in U.S. dollars and held in the U.S. dollar area which were redeemed during 1947 amounted to about $183 million. Besides normal maturities there were some substantial issues called in advance of maturity including a Canadian government issue of $30 million due in 1948 and various provincial and corporation issues. In addition to the redemptions of Canadian issues payable in U.S. dollars there were redemptions of $40 million of Canadian domestic issues payable in Canadian currency only. Other transactions in Canadian securities were largely offsetting in contrast to the predominant capital inflows from the sale of outstanding securities characteristic of earlier years. In 1947 repurchases of Canadian

securities exceeded sales to the United States by about $9 million. These Canadian repurchases arose from transactions permitted in Canadian dollars. The trade in Canadian securities were not entirely in one direction. While repurchases were characteristic of the trade in Canadian stocks and Canadian government issues there were net sales of Canadian corporation and municipal bonds. As a result of all of these security transactions holdings of Canadian securities in the U.S. dollar area were reduced by about $232 million in 1947.

Other security transactions included U.S. dollar receipts of about $13 million from the redemption and liquidation of United States and foreign securities.

Capital movements which were not connected with the security transactions resulted in net inflows of capital to Canada both through liquidations of Canadian assets abroad and increases in Canadian liabilities to the United States. Some of the latter transactions arose from direct investments in Canada and loans and advances to Canadian concerns. Inflows of this kind were much larger than outflows arising from permitted liquidations by non-residents of non-security assets in Canada. The remaining capital movements between Canada and the U.S. dollar area were for the most part of a short-term character and offsetting in their effects representing changes in short-term position of private residents and some reductions in non-resident owned balances in Canadian dollars, and currency adjustments connected with transactions included elsewhere in the accounts.

In addition to the gold subscription to the International Monetary Fund there was the subscription made in Canadian currency, $194 million in the form of non-interest bearing demand notes, and about $31 million in the form of a cash balance. Canada's subscription made to the International Bank for Reconstruction and Development in 1947 was in the form of non-interest bearing demand notes totalling $32.5 million.

FREIGHT AND SHIPPING AND THE BALANCE OF PAYMENTS

Important exchanges of transportation services arise from Canada's external commodity trade and from the operation of Canadian merchant ships. These have become very substantial and cover a variety of international activities. The principal development in recent years has been the fleet of Canadian owned and operated ships which was augmented greatly by the construction of ships in Canada during the war to assist in the movement of Canadian products overseas. Most of the wartime built ships originally owned by the Government Corporation, Park Steamship Company Limited, were sold to private operators in Canada during 1945 and 1946, and consequently continue to have important effects upon the Canadian balance of payments. Around the end of 1946 there were 143 ocean going vessels with a gross tonnage of 894,929 in the Canadian Mercantile Marine. In addition, there were vessels owned or operated by Canadian shipping companies which were registered elsewhere.

Statistics collected by the International Payments Branch on financial transactions affecting the balance of payments from Canadian owners and operators of ships, and the owners or Canadian agents of foreign ships sailing from Canadian ports, are summarized for 1946 below. The largest item in the shipping account of the balance of payments is the freight earnings of Canadian owned or operated ships on carrying exports from Canada to overseas countries. In 1946 these earnings amounted to $94 million. Of this about $32

million was received from carrying exports to the United Kingdom, $24 million to other Empire countries, $2 million to the United States and $36 million to other foreign countries. In 1938 when the number of Canadian operated ships was much smaller the corresponding earnings on exports were $26 million. A notable feature of the revenues in 1946 is the extent to which they arise from exports to "soft currency" countries. In addition Canadian shipping companies reported earnings of approximately $14 million on traffic between foreign countries in 1946. Corresponding revenue from the cross-trades in 1938 was only $6 million. Another item of growing importance has been the revenue from the charter of Canadian ships to other countries. In 1946 this amounted to $17 million, including bare boat charter revenues received from the United Kingdom for ships constructed during the war under the Mutual Aid Appropriation. Comparable revenues were negligible in 1938.

But in the balance of payments statement account also has to be taken of expenditures outside of Canada arising from the operations of Canadian ships. Expenditures abroad including disbursements in foreign ports, crew wages drawn abroad, and other outlays of Canadian shipping companies amounted to an estimated $36 million in 1946 compared with about $23 million in 1938. In addition, payments for charter of foreign ships totalled about $4 million in 1946 compared with $16 million in 1938.

The services of foreign owned and operated ships led to payments by Canada for freight on imports of about $30 million in 1946 compared with around $21 million in 1938. There were, however, large international receipts arising from expenditures in Canada on account of foreign ships for such purposes as port expenditures, fuel, repairs, drawings of crews, purchases of food, stores, etc., aggregating about $40 million in 1946 compared with an estimated $12 million in 1938.

Besides ocean shipping transactions the most important items cover inland freight transactions. Receipts from other countries for inland freight in Canada on Canadian exports to Canadian ocean ports and to points of exit along the international border amounted to about $116 million in 1946. These earnings on transportation and handling charges in Canada are not included in Canadian export statistics. About $54 million of these earnings arose from exports to the United States. The largest among other receipts is the item "Intransit receipts" of $27 million covering receipts from the operation of United States owned railways in South-Western Ontario as well as revenues of Canadian railways on other intransit traffic.

Payments by Canada for inland freight to the United States in 1946 aggregated about $126 million comprised of about $60 million for rail freight in the United States on shipments of coal to Canada by both water and rail and $66 million of United States rail freight on other commodities entering Canada across the United States border. Other freight payments to the United States of around $23 million cover other inland freight costs on commodities moving by truck, plane, pipelines and inland waterways as well as an estimate of ocean freight on imports from overseas entering Canada via the United States. Inland freight in overseas countries on imports is not available but is not believed to be substantial. Many of the commodities purchased abroad either originate or are purchased close to ocean ports of shipment to Canada. The inland freight costs in the United States covered above are additional costs to the recorded value of Canadian imports which value goods at the point of shipment to Canada.

FREIGHT AND SHIPPING TRANSACTIONS BETWEEN CANADA AND OTHER COUNTRIES - 1946

(Millions of dollars)

	All Countries	U.K.	Other Empire	Other Foreign	U.S.A.
RECEIPTS BY CANADA					
1. Ocean Shipping					
(1) Canadian ships					
Gross earnings on exports ..	94	32	24	36	2
Charter receipts	17	15	-	1	1
Inter-port revenues	14	-	-	7	7
Sub-Total	125	47	24	44	10
(2) Expenditures of Foreign ships in Canada	40	29	-	4	7
(3) Gross Shipping Credits ...	165	76	24	48	17
2. Inland freight on exports ...	116	31	10	21	54
3. Intransit revenues	27	-	-	-	27
4. Other receipts	3	-	-	-	3
Gross Credits	311	107	34	69	101
PAYMENTS BY CANADA					
1. Ocean shipping					
(1) Expenditures abroad of Canadian shipping companies	36	20	6	6	4
(2) Charter payments	4	1	-	1	2
(3) Freight on imports via Canadian ports	30	11	-	5	14
Gross Shipping Debits	70	32	6	12	20
2. Inland Rail Freight in U.S. on Imports					
Coal via vessel	28	-	-	-	28
Coal via rail	32	-	-	-	32
Other rail freight	66	-	-	-	66
Sub-Total	126	-	-	-	126
3. Miscellaneous Payments	23	-	-	-	23
Gross Debits	219	32	6	12	169

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table I - Current Account Between Canada and All Countries, 1926-1947

(Millions of dollars)

Year	Current Receipts	Current Expenditures	Net Balance On Current Account	Mutual Aid and Other Official Contributions	Net Balance on Current Account Excluding Official Contributions
1926	1,665	1,538	+ 127	-	+ 127
1927	1,633	1,643	- 10	-	- 10
1928	1,788	1,820	- 32	-	- 32
1929	1,646	1,957	- 311	-	- 311
1930	1,297	1,634	- 337	-	- 337
1931	972	1,146	- 174	-	- 174
1932	808	904	- 96	-	- 96
1933	829	831	- 2	-	- 2
1934	1,020	952	+ 68	-	+ 68
1935	1,145	1,020	+ 125	-	+ 125
1936	1,430	1,186	+ 244	-	+ 244
1937	1,593	1,413	+ 180	-	+ 180
1938	1,361	1,261	+ 100	-	+ 100
1939	1,457	1,331	+ 126	-	+ 126
1940	1,776	1,627	+ 149	-	+ 149
1941	2,458	1,967	+ 491	-	+ 491
1942	3,376	2,275	+ 1,101	+ 1,002	+ 99
1943	4,064	2,858	+ 1,206	+ 518	+ 688
1944	4,557	3,539	+ 1,018	+ 960	+ 58
1945	4,452	2,910	+ 1,542	+ 858	+ 684
1946	3,359	2,905	+ 454	+ 97	+ 357
1947	3,733	3,648	+ 85	+ 38	+ 47

Table II - Geographical Distribution of the Balance on Current Account, 1926-1947

Net Receipts or Credits (+); Net Payments or Debits (-)

(Millions of dollars)

Year	All Countries	United Kingdom (1)	Other Overseas Countries (2)	United States (3)
1926	+ 127	+ 58	+ 300	- 231
1927	- 10	- 19	+ 257	- 248
1928	- 32	- 21	+ 338	- 349
1929	- 311	- 99	+ 225	- 437
1930	- 337	- 106	+ 113	- 344
1931	- 174	- 54	+ 85	- 205
1932	- 96	- 14	+ 86	- 168
1933	- 2	+ 26	+ 85	- 113
1934	+ 68	+ 46	+ 102	- 80
1935	+ 125	+ 62	+ 92	- 29
1936	+ 244	+ 122	+ 123	- 1
1937	+ 180	+ 135	+ 122	- 77
1938	+ 100	+ 127	+ 122	- 149
1939	+ 126	+ 137	+ 105	- 116
1940	+ 149	+ 343	+ 98	- 292
1941	+ 491	+ 734	+ 75	- 318
1942	+ 1,101	+ 1,223	+ 58	- 180
1943	+ 1,206	+ 1,149	+ 76	- 19
1944	+ 1,018	+ 746	+ 241	+ 31
1945	+ 1,542	+ 747	+ 763	+ 32
1946	+ 454	+ 500	+ 567	- 613
1947	+ 85	+ 632	+ 591	- 1,138

(1) Excl. wheat exports diverted to other overseas countries, and exports of gold.

(2) Incl. estimated wheat sold in European Countries.

(3) Incl. all net exports of non-monetary gold.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table III - Revised Estimates of Current Transactions Between Canada and All Countries, 1926-1937

(Millions of Dollars)

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
A. Current Credits with All Countries												
Merchandise exports	1,272	1,215	1,341	1,178	880	601	495	532	648	732	954	1,041
Tourist and travel expenditures	152	163	177	198	180	153	114	89	106	117	142	166
Interest & dividends	32	41	46	61	59	48	37	38	57	64	75	76
Freight and shipping	96	97	96	92	70	54	38	44	52	68	80	112
All other current credits	83	85	88	80	69	59	54	44	43	45	47	53
Total as above	1,635	1,601	1,748	1,609	1,258	915	738	747	906	1,026	1,298	1,448
Net exports of non-monetary gold	30	32	40	37	39	57	70	82	114	119	132	145
Total Current Credits	1,665	1,633	1,788	1,646	1,297	972	808	829	1,020	1,145	1,430	1,593
B. Current Debits with All Countries												
Merchandise imports	973	1,057	1,209	1,272	973	580	398	368	484	526	612	776
Tourist and travel expenditures	99	100	98	108	92	71	49	44	50	64	75	87
Interest & dividends	240	257	275	322	348	330	302	264	268	270	311	302
Freight and shipping	105	109	116	130	103	79	66	66	79	82	97	137
All other current debits	121	120	122	125	118	86	89	89	71	78	91	111
Total Current Debits	1,538	1,643	1,820	1,957	1,634	1,146	904	831	952	1,020	1,186	1,413
Net balance on Current Account												
Excluding all gold	+ 97	- 42	- 72	- 348	- 376	- 231	- 166	- 84	- 46	+ 6	+ 112	+ 35
Including non-Monetary gold	+ 127	- 10	- 32	- 311	- 337	- 174	- 96	- 2	+ 68	+ 125	+ 244	+ 180
Monetary gold	+ 1	- 7	+ 49	+ 37	- 36	+ 33	+ 3	+ 6	- 4	- 2	-	-
Including all gold	+ 128	- 17	+ 17	- 274	- 373	- 141	- 93	+ 4	+ 64	+ 123	+ 244	+ 180

Table IV - Estimated Current Transactions Between Canada and the United Kingdom, 1926-1937

(Millions of Dollars)

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
A. Credits with the United Kingdom												
Merchandise exports (adjusted) (2)	315	271	288	224	174	139	149	188	234	258	342	385
Gold exports (1)						(1)		(63)	(27)	(16)	(59)	(32)
Tourist & Travel expenditures	8	10	9	9	8	8	7	5	7	7	8	11
Interest and dividends	2	2	2	2	2	1	1	2	2	2	2	2
Freight and shipping	15	10	11	8	7	9	5	8	11	21	23	38
All other current credits	12	12	113	13	12	13	14	11	7	7	7	8
Total Current Credits excluding gold	352	305	323	256	203	170	176	214	261	295	382	444
B. Current Debits with the United Kingdom												
Merchandise imports (adjusted)	148	171	194	188	147	85	61	80	103	110	120	148
Tourist & Travel expenditures	21	20	19	20	18	14	14	10	10	12	15	16
Interest and dividends	97	101	100	113	115	102	91	72	75	76	84	85
Freight and shipping	8	11	10	12	12	9	11	12	14	21	26	43
All other current debits	20	21	21	22	17	14	13	14	13	14	15	17
Total Current Debits	294	324	344	355	309	224	190	188	215	233	260	309
Net Current Account Balance Excluding Gold	+58	-19	-21	-99	-106	-54	-14	+26	+46	+62	+122	+135

(1) Exports of gold to the United Kingdom are omitted from total credits with the United Kingdom.

(2) Excluding estimated wheat exports diverted to other overseas countries.

Table V - Estimated Current Transactions Between Canada and the United States, 1926-1937

(Millions of Dollars)

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
A. Current Receipts from the United States												
Merchandise exports (adjusted)	476	489	507	519	397	254	169	177	226	285	369	391
Net exports of non-monetary gold (1)	30	32	40	37	39	57	70	82	114	119	132	145
Tourist expenditures	140	148	163	184	167	141	103	81	96	107	129	149
Interest and dividends	12	16	20	30	30	25	18	17	20	24	31	31
Freight and shipping	64	69	68	68	52	38	25	28	32	33	41	45
All other current credits	65	67	69	61	51	41	37	30	33	35	36	42
Total Current Credits Including All Non-monetary Gold	787	821	867	899	736	556	422	415	521	603	738	803
B. Current Payments to the United States												
Merchandise imports (adjusted)	652	690	810	875	634	372	246	205	278	299	352	463
Tourist expenditures	70	72	72	81	67	52	30	30	36	48	54	65
Interest and dividends	138	151	169	202	225	221	205	188	189	190	222	211
Freight and shipping	85	84	92	103	80	61	48	45	55	47	53	68
All other current debits	73	72	73	75	74	55	61	60	43	48	58	73
Total Current Debits	1,018	1,069	1,216	1,336	1,080	761	590	528	601	632	739	880
Net Current Account Deficit including all net exports of non-monetary gold	- 231	- 248	- 349	- 437	- 344	-205	-168	-113	-80	-29	-1	-77

(1) All exports of non-monetary gold are included in the account with the United States.

Table VI - Current Transactions Between Canada and Other Countries than the United Kingdom and United States, 1926-1937

(Millions of Dollars)

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
A. Current Credits with Other Countries												
Merchandise exports (1)	481	455	546	435	309	208	177	167	188	189	243	265
Tourist & Travel expenditures	4	5	5	5	5	4	4	3	3	3	5	6
Interest and dividends	18	23	24	29	27	22	18	19	35	38	42	43
Freight and shipping	17	18	17	16	11	7	8	8	9	14	16	29
All other current credits	6	6	6	6	6	5	3	3	3	3	4	3
Total - Current Credits	526	507	598	491	358	246	210	200	238	247	310	346
B. Current Debits with Other Countries												
Merchandise imports	173	196	205	209	192	123	91	83	103	117	140	165
Tourist & travel expenditures	8	8	7	7	7	5	5	4	4	4	6	6
Interest and dividends	5	5	6	7	8	7	6	4	4	4	5	6
Freight and shipping	12	14	14	15	11	9	7	9	10	14	18	26
All other current debits	28	27	28	28	27	17	15	15	15	16	18	21
Total - Current Debits	226	250	260	266	245	161	124	115	136	155	187	224
Net Credits on Current Account	+300	+257	+338	+225	+113	+85	+86	+85	+102	+92	+123	+122

(1) Including estimated wheat sold in European countries.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table VII - Transactions Between Canada and All Countries, 1938 - 1947
(Millions of Canadian Dollars)

	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947(1)
A. CURRENT CREDITS-WITH ALL COUNTRIES										
Merchandise exports (adjusted)	844	906	1,202	1,732	2,515	3,050	3,590	3,474	2,393	2,723
Net exports of non-monetary gold	161	184	203	204	184	142	110	96	96	99
Tourist and travel expenditures	149	149	104	111	81	88	119	165	221	245
Interest and dividends	66	57	52	60	67	59	71	76	64	62
Freight and shipping	95	102	138	185	221	288	322	340	311	321
All other current credits	46	59	77	166	308	437	345	301	274	283
Total Current Credits	1,361	1,457	1,776	2,458	3,376	4,064	4,557	4,452	3,359	3,733
B. CURRENT DEBITS-WITH ALL COUNTRIES										
Merchandise imports (adjusted)	649	713	1,006	1,264	1,406	1,579	1,398	1,442	1,822	2,535
Tourist and travel expenditures	86	81	43	21	26	36	58	83	135	167
Interest and dividends	307	306	313	286	270	261	264	251	312	335
Freight and shipping	105	119	132	167	228	294	252	222	219	275
Canadian Overseas Expenditures	-	-	29	97	191	499	1,085	721	104	-
All other current debits	114	112	104	132	154	189	482	191	313	336
Total Current Debits	1,261	1,331	1,627	1,967	2,275	2,858	3,539	2,910	2,905	3,648
C. NET BALANCES-WITH ALL COUNTRIES										
Merchandise trade (adjusted)	+195	+193	+196	+468	+1,109	+1,471	+2,192	+2,032	+571	+188
Net exports of non-monetary gold	+161	+184	+203	+204	+ 184	+ 142	+ 110	+ 96	+ 96	+ 99
Tourist and travel expenditures	+ 63	+ 68	+ 61	+ 90	+ 55	+ 52	+ 61	+ 82	+ 86	+ 78
Interest and dividends	-241	-249	-261	-226	- 203	- 202	- 193	- 175	-248	-273
Freight and shipping	- 10	- 17	+ 6	+ 18	- 7	- 6	+ 70	+ 118	+ 92	+ 46
All other current transactions	- 68	- 53	- 56	- 63	- 37	- 251	-1,222	- 611	-143	- 53
Total Current Account (including Contributions)	+100	+126	+149	+491	+1,101	+1,206	+1,018	+1,542	+454	+ 85
Capital Account (Net)	-106	-136	-188	-497	- 106	- 677	- 48	- 689	-361	- 48
Mutual Aid and 1942 Contribution	-	-	-	-	-1,000	- 512	- 936	- 748(2)	- 15	-
Contributions to UNRRA	-	-	-	-	-	-	- 11	- 34	- 68	- 38
Military and Other Relief (1)	-	-	-	-	- 2	- 6	- 13	- 76(2)	- 14	-
Balancing Item (3)	+ 6	+ 10	+ 39	+ 6	+ 7	- 11	- 10	+ 5	+ 4	+ 1
	-100	-126	-149	-491	-1,109	-1,206	-1,018	-1,542	-454	- 85

(1) Subject to revision.
(2) Preliminary figures originally issued by the Mutual Aid Board have been revised.
(3) This balancing item reflects possible errors and the omission of certain factors which cannot be measured

Table VIII - Current Transactions Between Canada and the United Kingdom, 1938 - 1947
(Millions of Canadian Dollars)

	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947(1)
A. CURRENT CREDITS-WITH THE UNITED KINGDOM										
Merchandise exports (adjusted)	337	332	542	914	1,424	1,636	1,796	1,422	626	750
Tourist and travel expenditures	8	7	5	2	2	1	2	2	3	7
Interest and dividends	2	2	2	4	5	4	8	4	7	7
Freight and shipping	34	34	60	110	114	128	139	145	107	115
War services	-	-	10	45	96	104	96	65	18	-
All other current credits	8	9	17	18	16	16	22	35	79	89
Total Current Credits	389	384	636	1,093	1,657	1,889	2,063	1,673	840	968
B. CURRENT DEBITS-WITH THE UNITED KINGDOM										
Merchandise imports (adjusted)	119	106	133	137	116	100	94	100	138	182
Tourist and travel expenditures	15	11	2	2	2	2	2	2	3	9
Interest and dividends	81	78	74	66	50	51	55	53	54	51
Freight and shipping	30	36	32	28	41	40	28	30	32	36
Canadian Overseas expenditures	-	-	29	97	191	499	1,085	696	73	-
All other current debits	17	16	23	29	34	48	53	45	40	58
Total Current Debits	262	247	293	359	434	740	1,317	926	340	336
C. NET CURRENT BALANCES-WITH UNITED KINGDOM										
Merchandise trade (adjusted)	+218	+226	+409	+777	+1,308	+1,536	+1,702	+1,322	+488	+568
Tourist and travel expenditures	- 7	- 4	+ 3	-	-	- 1	-	-	-	- 2
Interest and dividends	- 79	- 76	- 72	- 62	- 45	- 47	- 47	- 49	- 47	- 44
Freight and shipping	+ 4	- 2	+ 28	+ 82	+ 73	+ 88	+ 111	+ 115	+ 75	+ 79
All other current transactions	- 9	- 7	- 25	- 63	- 113	- 427	-1,020	- 641	- 22	+ 31
Total Current Account	+127	+137	+343	+734	+1,223	+1,149	+ 746	+ 747	+500	+632
Mutual Aid and Contribution (Included in Credits above)	-	-	-	-	+1,000	+ 501	+ 774	+ 596(2)	-	-

(1) Subject to revision.

(2) Preliminary figures originally issued by the Mutual Aid Board have been revised by eliminating costs of goods declared surplus. A corresponding deduction appears in exports of mutual aid goods as expenditure figures were used rather than recorded exports. Small revisions also have been made in the statements with other Empire Countries and other Foreign Countries.

Table IX - Current Transactions Between Canada and Other Empire Countries,[3] 1938 - 1947

(Millions of Canadian Dollars)

	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947[2]
A. CURRENT CREDITS-WITH OTHER EMPIRE COUNTRIES										
Merchandise exports (adjusted)	105	104	157	184	117	127	174	354	269	366
Tourist and travel expenditures	2	2	1	1	(1)	(1)	(1)	(1)	1	1
Interest and dividends	3	3	1	1	2	1	1	4	2	5
Freight and shipping	9	9	16	9	13	20	30	38	34	38
War Services	-	-	10	29	34	24	32	16	-	-
All other current credits	(1)	(1)	1	4	3	5	7	3	3	4
Total Current Credits	119	118	186	228	169	177	244	415	309	414
B. CURRENT DEBITS-WITH OTHER EMPIRE COUNTRIES										
Merchandise imports (adjusted)	65	71	103	142	110	100	102	113	129	160
Tourist and travel expenditures	2	2	1	1	(1)	(1)	(1)	(1)	1	3
Interest and dividends	2	2	2	2	1	1	1	1	1	1
Freight and shipping	4	3	4	8	8	7	5	4	6	5
All other current debits	2	1	(1)	4	4	2	3	2	3	5
Total Current Debits	75	79	110	157	123	110	111	120	140	174
C. NET CURRENT BALANCES-WITH OTHER EMPIRE COUNTRIES										
Merchandise trade (adjusted)	+40	+33	+54	+42	+ 7	+27	+ 72	+241	+140	+206
Tourist and travel expenditures	-	-	-	-	-	-	-	-	-	- 2
Interest and dividends	+ 1	+ 1	- 1	- 1	+ 1	-	-	+ 3	+ 1	+ 4
Freight and shipping	+ 5	+ 6	+12	+ 1	+ 5	+13	+ 25	+ 34	+ 25	+ 33
All other current transactions	- 2	- 1	+11	+29	+33	+27	+ 36	+ 17	+ 1	- 1
Total Current Account	+44	+39	+76	+71	+46	+67	+133	+295	+169	+240
Mutual Aid Included in Credits	-	-	-	-	-	+ 2	+ 60	+ 64	+ 5	-

(1) Less than $500,000.
(2) Subject to revision.
(3) Includes other sterling area countries from 1940 - 1947.

Table X - Current Transactions Between Canada and the United States, 1938 - 1947

(Millions of Canadian Dollars)

	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947(1)
A. CREDITS-WITH THE UNITED STATES										
Merchandise exports (adjusted)	268	344	424	566	911	1,224	1,444	1,134	948	1,059
Net exports of non-monetary gold	161	184	203	204	184	142	110	96	96	99
Tourist and travel expenditures	134	137	98	107	79	87	117	163	216	235
Interest and dividends	25	27	29	39	43	34	42	44	41	36
Freight and shipping	39	46	49	64	92	137	146	134	101	102
All other current credits	36	42	31	65	152	274	176	169	159	165
Total Current Credits	663	780	834	1,045	1,461	1,898	2,035	1,740	1,561	1,696
B. DEBITS-WITH THE UNITED STATES										
Merchandise imports (adjusted)	400	472	702	910	1,116	1,311	1,113	1,119	1,378	1,951
Tourist and travel expenditures	66	67	40	18	24	34	56	81	130	152
Interest and dividends	218	220	233	214	215	205	203	192	250	274
Freight and shipping	55	61	78	131	179	247	219	188	169	217
All other current debits	73	76	73	90	107	120	413(2)	128	247	240
Total Current Debits	812	896	1,126	1,363	1,641	1,917	2,004	1,708	2,174	2,834
C. NET BALANCES-WITH THE UNITED STATES										
Merchandise trade (adjusted)	-132	-128	-278	-344	-205	- 87	+331	+ 15	-430	-892
Net exports of non-monetary gold	+161	+184	+203	+204	+184	+142	+110	+ 96	+ 96	+ 99
Tourist and travel expenditures	+ 68	+ 70	+ 58	+ 89	+ 55	+ 53	+ 61	+ 82	+ 86	+ 83
Interest and dividends	-193	-193	-204	-175	-172	-171	-161	-148	-209	-238
Freight and shipping	- 16	- 15	- 29	- 67	- 87	-110	- 73	- 54	- 68	-115
All other current transactions	- 37	- 34	- 42	- 25	+ 45	+154	-237	+ 41	- 88	- 75
Total Current Account	-149	-116	-292	-318	-180	- 19	+ 31	+ 32	-613	-1,138

(1) Subject to revision.

(2) Includes $280 million special payments to U.S. Treasury.

Table XI - Current Transactions Between Canada and Other Foreign Countries, 1938 - 1947

(Millions of Canadian Dollars)

	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947(1)
A. CREDITS- WITH OTHER FOREIGN COUNTRIES										
Merchandise exports (adjusted)	134	126	79	68	63	63	176	564	550	548
Tourist and travel expenditures	5	3	(3)	1	(3)	(3)	(3)	(3)	1	2
Interest and dividends	36	25	20	16	17	20	20	24	14	14
Freight and shipping	13	13	13	2	2	3	7	23	69	66
All other current credits	2	8	8	5	7	14	12	13	15	25
Total Current Credits	190	175	120	92	89	100	215	624	649	655
B. DEBITS- WITH OTHER FOREIGN COUNTRIES										
Merchandise imports (adjusted)	65	64	68	75	64	68	89	110	177	242
Tourist and travel expenditures	3	1	(1)	(1)	(1)	(1)	(1)	(1)	1	3
Interest and dividends	6	6	4	4	4	4	5	5	7	9
Freight and shipping	16	19	18	(2)	(2)	(2)	(2)	(2)	12	17
Canadian Overseas Expenditures	-	-	-	-	-	-	-	25	31	-
All other current debits	22	19	8	9	9	19	13	16	23	33
Total Current Debits	112	109	98	88	77	91	107	156	251	304
C. NET BALANCES- WITH OTHER FOREIGN COUNTRIES										
Merchandise trade (adjusted)	+69	+62	+11	- 7	- 1	- 5	+ 87	+454	+373	+306
Tourist and travel expenditures	+ 2	+ 2	-	+ 1	-	-	-	-	-	- 1
Interest and dividends	+30	+19	+16	+12	+13	+16	+ 15	+ 19	+ 7	+ 5
Freight and shipping	- 3	- 6	- 5	+ 2	+ 2	+ 3	+ 7	+ 23	+ 57	+ 49
All other current transactions	-20	-11	-	- 4	- 2	- 5	- 1	- 28	- 39	- 8
Total Current Account	+78	+66	+22	+ 4	+12	+ 9	+108	+468	+398	+351
Mutual Aid Included in Credits	-	-	-	-	-	9	102	88	10	-
Contributions to UNRRA and Post UNRRA	-	-	-	-	-	-	11	34	68	38
Military and other Relief (1)	-	-	-	-	2	6	13	76	14	-
Export Credits and Advances	-	-	-	-	-	-	-	105	210	140

(1) Subject to revision.
(2) Included in amount shown for United States
(3) Less than $500,000.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Table XII - Revised Statement of Capital Transactions Between Canada and All Countries, 1927 - 1937

	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
New Issues of Canadian Securities sold outside Canada	301	207	297	400	200	104	134	111	117	106	90
Retirements of Canadian Securities owned outside of Canada	160	200	150	110	202	105	166	169	256	270	170
Net new issues (+) or net retirements (-)	+141	+ 7	+147	+290	- 2	- 1	-32	- 58	-139	-164	- 80
Net Sales of Outstanding Securities (+)											
Estimated (1)	-171	-126	- 2	+ 56	+ 45	+85					
Recorded							+51	+ 9	+ 51	+ 8	- 5
Direct Investments Transactions (2)	+ 35	+ 21	+ 18	+ 37	+ 10	-28	-59	- 45	- 44	- 62	- 64
Insurance Transactions	- 15	- 12	+ 19	+ 9	+ 34	- 1	- 1	+ 3	- 18	- 26	- 10
Net Change in external assets of Canadian Banks	+ 16	+ 87	+ 88	-	+ 28	+38	+24	- 19	-	+ 3	- 13
Monetary Gold (net)	- 7	+ 49	+ 37	- 36	+ 33	+ 3	+ 6	- 4	- 2	-	-
Other Capital Movements	+ 11	+ 6	+ 4	- 19	+ 26	-	-	-	-	-	-
Net Movement of Capital	+ 10	+ 32	+311	+337	+174	+96	-11	-114	-152	-241	-172
Net Balance on Current Account, including Net Exports of Non-Monetary Gold	- 10	- 32	-311	-337	-174	-96	- 2	+ 68	+125	+244	+180
Balancing Item (3)	-	-	-	-	-	-	+13	+ 46	+ 27	- 3	- 8

(1) The principal revisions of figures previously published occur in this item. As complete records covering the international trade in securities are not available before 1933 these transactions are estimated as the difference between all other recorded capital movements and the net balance on current account for the years from 1927 to 1932.

(2) These figures have been revised by the transfer of some transactions formerly included in this item to the current account.

(3) This balancing item reflects possible errors and the omission of transactions which cannot be measured statistically. In the years 1927 to 1932 errors and omissions are reflected in the item "Estimated Net Sales of Outstanding Securities".

Table XIII - Capital Transactions between Canada and All Countries, 1938-1947 (2)

(Millions of Canadian Dollars)

	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947 (4)
Net retirements of Canadian securities held abroad including official repatriations										
In Foreign Countries	- 41	+ 24	- 41	- 31	- 25	-162	- 74	- 88	-238	-231
In Empire Countries	- 21	-120	-150	-198	- 326	- 14	- 34	- 32	- 77	- 41
All Countries	- 62	- 96	-191	-229	- 351	-176	-108	-120	-315	-272
Net sales of outstanding securities by Canada (+) or Purchases (-)										
To or from Foreign Countries	+ 41	+ 87	+ 33	+ 74	+ 156	+298	+225	+396	+274	+ 4
To or from Empire Countries	- 12	- 5	- 28	- 36	- 8	- 26	- 27	- 41	- 54	- 9
All Countries	+ 29	+ 82	+ 5	+ 38	+ 148	+272	+198	+355	+220	- 5
Net Loans and advances by Canadian Government to Other Countries (3)										
(Increase (-)	-	-	-	-	- 700	+ 18	+ 57	- 41	-661	-459
Change in Liquid Reserves of Gold and United States Dollars (Increase (-)	(1)	(1)	+ 79	+160	- 144	-364	-278	-667	+251	+743
Change in Sterling Balances (Increase (-)	(1)	(1)	- 82	-728	+ 818	-	+ 4	- 1	+ 15	- 1
Other Capital Movements	- 73	-122	+ 1	+262	+ 123	-427	+ 79	-215	+129	- 54
Net Movement of Capital	-106	-136	-188	-497	- 106	-677	- 48	-689	-361	- 48
Mutual Aid and 1942 Contributions	-	-	-	-	-1,000	-512	-936	-748	- 15	-
Contributions to UNRRA, Military and Other Official Relief	-	-	-	-	- 2	- 6	- 24	-110	- 82	- 38

(1) Not available.

(2) For more detailed analysis see Tables XIV and XV.

(3) Excluding repayments of 5 on Wheat Loan to U.S.S.R. in 1946 and 1947, and interim advances to sterling area in 1945 and 1946 which are included in Other Capital Movements, 209 in 1945 and 112 in 1946.

(4) Subject to revision.

Table XIV - Summary of Current and Capital Transactions Between Canada and Empire Countries,[1] 1938-1947

(Millions of dollars)

	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947[2]
Current Account										
Gross Credits	508	502	822	1,321	1,826	2,066	2,307	2,088	1,149	1,328
Gross Debits	337	326	403	516	557	850	1,428	1,046	480	510
Current Balance (Including Mutual Aid)	+171	+176	+419	+805	+1,269	+1,216	+879	+1,042	+669	+872
Capital Account										
Capital Debits, or Credits (+)										
(a) Private transactions										
Redemptions of securities	21	45	13	10	30	10	32	31	76	41
Net repurchases of securities ...	12	5	28	36	8	26	27	41	54	9
Other Capital (net)	26	+ 42	54	4	13	33	+ 61	16	+ 32	+ 9
(b) Official transactions										
Repatriation of securities	-	75	137	188	296	4	2	1	1	-
War Loan to United Kingdom	-	-	-	-	700	+ 18	+ 57	+ 64	+ 89	+104
Postwar Loan to United Kingdom ..	-	-	-	-	-	-	-	-	540	423
Interim advances (3)	-	-	-	-	-	-	-	209	112	-
Financial settlement with United Kingdom	-	-	-	-	-	-	-	-	+150	-
Investment in fixed production assets	-	-	+100	+157	+ 58	205	2	-	-	-
Change in balances (decrease +)	-	-	82	728	+ 818	-	+ 4	1	+ 15	1
Special payments and adjustments.	-	-	-	-	74	306(4)	57	115	18	9
Net Capital Movements as above ..	- 59	- 83	-214	-809	- 245	- 566	- 2	- 350	-515	-370
Mutual Aid and 1942 Contribution	-	-	-	-	-1,000	- 503	-834	- 660	- 5	-
Special Receipts of Convertible exchange (5)	-	- 2	-248	-	- 23	- 143	- 55	- 33	-150	-505
Balancing item (6)	(6)	(6)	+ 43	+ 4	- 1	- 4	+ 8	+ 1	+ 1	+ 3
			-419	-805	-1,269	-1,216	-879	-1,042	-669	-872

(1) Transactions with the sterling area are covered from 1940-1947.

(2) Subject to revision. (3) Most of these advances were cancelled in the Financial Settlement with the United Kingdom. (4) Including 190 repayment of working capital. (5) This represents gold and U.S. dollars received from the U.K. in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States. (6) Reflecting multilateral settlements up to introduction of exchange control, and thereafter, errors and omissions.

Table XV - Summary of Current and Capital Transactions Between Canada and Non-Empire Countries, 1938-1947

(Millions of dollars)

	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947(1)
Current Account										
Gross Credits	853	955	954	1,137	1,550	1,998	2,250	2,364	2,210	2,351
Gross Debits	924	1,005	1,224	1,451	1,718	2,008	2,111	1,864	2,425	3,138
Current Surplus (+) or Deficit (-) .	-71	- 50	-270	-314	-168	- 10	+139	+500	-215	-787
Capital Account										
New issues of Canadian Securities ..	38	155	-	-	-	146	92	91	215	87
Retirements of Canadian Securities .	79	131	41	31	25	308	166	179	453	318
Net New issues (+) or Net retirements (-)	-41	+ 24	- 41	- 31(2)	- 25(2)	-162	- 74	- 88	-238	-231
Net Sales (+) or Net Purchases (-) of Outstanding Securities										
Canadian Securities	+48	+ 69	+ 15	+ 46	+132	+254	+183	+300	+210	- 9
U.S. and Foreign Securities	- 7	+ 18	+ 18	+ 28	+ 24	+ 44	+ 42	+ 96	+ 64	+ 13
Net Change in Liquid Reserves of Gold and U.S. dollar ..... (Decline (+) Increase (-))	(3)	(3)	+ 79	+160	-144	-364	-278	-667	+251	+743
Export Credits and Interim Advances	-	-	-	-	-	-	-	-105	-210	-140
Other Capital Movements and Adjusting Entries (net)	-47	-164	- 45	+109	+152	+117	+ 77	+125	+ 77	- 54(4)
Net Capital Movements Above	-47	- 53	+ 26	+312	+139	-111	- 50	-339	+154	+322
Mutual Aid	-	-	-	-	-	- 9	-102	- 88	- 10	-
Contribution to UNRRA and Post-UNRRA	-	-	-	-	-	-	- 11	- 34	- 68	- 38
Military and Other Relief (1)	-	-	-	-	- 2	- 6	- 13	- 76	- 14	-
Special Receipts of Convertible exchange (5)	-	+ 2	+248	-	+ 23	+143	+ 55	+ 33	+150	+505
Balancing item (6)	(6)	(6)	- 4	+ 2	+ 8	+ 7	- 18	+ 4	+ 3	- 2
			+270	+314	+168	+ 10	-139	-500	+215	+787

(1) Subject to revision. (2) Excluding refunding issues.

(3) Available data included in other capital movements.

(4) Includes the gold subscription of $74 million to the International Monetary Fund as it reduced official reserves.

(5) This represents gold and U.S. dollars received from the U.K. in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

(6) Reflecting multilateral settlements up to introduction of exchange control, and thereafter, errors and omissions.

Table XVI - Current Account of the Canadian Balance of International Payments

Revised Statement for 1946 and Preliminary Estimates for 1947

(Millions of dollars)

	All Countries		United Kingdom		Other Sterling Area		United States		All Other Countries	
	1946	1947	1946	1947	1946	1947	1946	1947	1946	1947
A. Current Receipts										
Merchandise exports (adjusted)	2,338	2,710	626	750	269	366	893	1,046	550	548
Receipts by War Supplies Ltd.	55	13	-	-	-	-	55	13	-	-
Net exports of non-monetary gold ..	96	99	-	-	-	-	96	99	-	-
Tourist expenditures	221	245	3	7	1	1	216	235	1	2
Interest & dividends	64	62	7	7	2	5	41	36	14	14
Freight and shipping	311	321	107	115	34	38	101	102	69	66
Inheritances & immigrants funds ...	65	69	45	47	-	1	19	18	1	3
All Other Current Receipts	209	214	52	42	3	3	140	147	14	22
Total Current Receipts	3,359	3,733	840(4)	968(4)	309(1)(4)	414(4)	1,561	1,696	649(2)	655(3)
B. Current Payments										
Merchandise imports (adjusted)	1,822	2,535	138	182	129	160	1,378	1,951	177	242
Tourist expenditures	135	167	3	9	1	3	130	152	1	3
Interest and dividends	312	335	54	51	1	1	250	274	7	9
Freight and shipping	219	275	32	36	6	5	169	217	12	17
War expenditures	127	-	73	-	-	-	23	-	31	-
Inheritances & emigrants funds	34	49	2	8	-	-	31	37	1	4
All Other Current Payments	256	287	38	50	3	5	193	203	22	29
Total Current Payments	2,905	3,648	340	336	140	174	2,174	2,834	251	304
C. Current Account Balance	+454	+85	+500	+632	+169	+240	-613	-1,138	+398	+351
Contributions of Official Relief....	- 97	-38	-	-	- 5	-	-	-	- 92	- 38
D. Net Balance on Current Account (Excluding Official Relief)	+357	+47	+500	+632	+164	+240	-613	-1,138	+306	+313

(1) Including Mutual Aid of $5 mm.

(2) Including contributions of official relief of $92 mm and trade financed by Net Export Credits and advances of $210 mm.

(3) Including contribution of official relief of $38 mm and trade financed by Net Export Credits and advances of $140 mm.

(4) Credits with sterling area countries include trade financed by drawings of $540 mm in 1946 and $423 mm in 1947 on the Canadian Loan to the United Kingdom.

Table XVII - Current Account of the Canadian Balance of International Payments

Revised Statement for 1945
(Millions of Dollars)

	All Countries	United Kingdom	Other Sterling Area	United States	All Other Countries
A. Current Receipts					
Merchandise exports (adjusted)	3,474	1,422	354	1,134	564
Net exports of non-monetary gold	96	-	-	96	-
Tourist expenditures	165	2	(1)	163	(1)
Interest & dividends	76	4	4	44	24
Freight and shipping	340	145	38	134	23
War Services	81	65	16	-	-
All other Current Receipts	220	35	3	169	13
Total Current Receipts	4,452	1,673	415	1,740	624
B. Current Payments					
Merchandise imports (adjusted)	1,442	100	113	1,119	110
Tourist expenditures	83	2	(1)	81	(1)
Interest & dividends	251	53	1	192	5
Freight & shipping	222	30	4	188	(2)
Canadian Overseas Expenditures	721	696	-	-	25
All Other Current Payments	191	45	2	128	16
Total Current Payments	2,910	926	120	1,708	156
C. Current Account Balance	+1,542	+747	+295	+32	+468
Mutual Aid and Official Relief (3)	- 858	-596	- 64	-	-198
D. Net Balance on Current Account					
(Excluding Mutual Aid and Official Relief)	+ 684	+151	+231	+32	+270

(1) Less than $500,000.

(2) Included in amount shown for United States.

(3) Preliminary figures originally issued by the Mutual Aid Board have been revised by eliminating costs of goods declared surplus.

Table XVIII - Statistics on Canada's International Investment Position

A. Summary - Non-Resident Investments in Canada, 1926-1946

(Millions of Canadian dollars)

	1926	1930	1933	1939	1945(1)	1946(1)
Held in United Kingdom	2,636.3	2,766.3	2,682.8	2,475.9	1,766.0	1,645.0
Held in United States	3,196.3	4,659.5	4,491.7	4,151.4	4,982.0	5,135.0
Held in Other Countries	170.0	188.0	190.0	286.0	347.0	350.0
Total - Non-Resident Investments in Canada	6,002.6	7,613.8	7,364.5	6,913.3	7,095.0	7,130.0

B. Summary - Book Value of United States Direct Investments in Canada in Companies Controlled in the United States, by Forms of Investment, 1926-1946

(Millions of dollars)

	1926	1930	1933	1939	1945(1)	1946(1)
Capital Stock	1,000.0	1,329.4	1,271.6	1,289.2	1,609.0	1,686.0
Bonds	187.6	336.3	338.3	305.8	290.0	318.0
Other Investments	214.9	327.0	323.4	285.9	401.0	424.0
Total	1,402.5	1,992.7	1,933.3	1,880.9	2,300.0	2,428.0

C. Summary - Canadian Assets Abroad, 1930-1946

(Excluding Investments of Insurance Companies)
(Millions of Canadian dollars)

	1930	1939	1945	1946
Direct Investments in Businesses Outside of Canada	443	671	720)	1,250(1)
Portfilio Holdings of Foreign Securities	842	719	621)	
Government Credits	31	31	707	1,362
Net External Assets of Canadian Banks	180	(2)	(2)	(2)
Official Liquid Reserves (3)	(2)	444	1,667	1,245
	1,496	1,865	3,715	3,857

(1) Subject to revision.
(2) Not available. (3) Including holdings of gold which at the end of 1945 had a Canadian dollar value of $388 million, and at the end of 1946, $536 million.

N.B. A more detailed analysis of British and Foreign Investments in Canada and Canadian Investments Abroad has been published in Canadian Balance of International Payments, 1926-1945.

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Minister of Trade and Commerce

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DEPARTMENT OF TRADE AND COMMERCE

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BALANCE OF PAYMENTS SECTION

THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

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Dominion Statistician: Herbert Marshall
Chief, International Payments Section: C. D. Blyth

THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1948.

The great improvement which took place in Canada's international accounts in 1948 is disclosed in the rise in the credit balance on current account to $453 million from $47 million in 1947, comparing with $363 million in 1946. This improvement resulted from a rise in the value of exports of goods and services at a time when the total value of imports of goods and services remained virtually unchanged. Most of the increase in the value of exports of goods and services resulted from price increases as the volume, in the aggregate, does not appear to have been much altered, although there were important changes in the volume of different groups of goods and services. The volume of imports on the other hand was materially reduced chiefly because of the effects of the Emergency Exchange Conservation programme introduced in November 1947.

Even greater changes occurred in Canada's accounts with individual countries and areas. The spectacular rise in the value of exports of goods and services to the United States, combined with a reduction in the value of imports, due to reductions in the volume of commodity imports and in other current expenditures, led to a sharp decline in the current account deficit with the United States from $1,135 million in 1947 to $401 million in 1948.

Accompanying this reduction in the disequilibrium with the United States there were appreciable declines in the export surpluses with the United Kingdom, the other sterling area, and other overseas countries. The current surplus with all overseas countries dropped from $1,220 million in 1947 to $873 million in 1948, including exports of official relief of $38 million and $19 million respectively in the two years.

This improvement in the current account balance with all countries of $406 million was an important contributor to the rise in Canada's official liquid reserves of $496 million in 1948 compared with a reduction of $743 million in 1947, as shown in Statement 1. At the end of 1948 Canada's official liquid reserves amounted to $998 million.

Changes in capital transactions effected the other improvements. The changes in the bilateral disequilibrium of the Canadian balance of payments and in the amounts of exports to overseas countries financed by loans and contributions from the Canadian Government have had very important direct effects upon the size of Canada's liquid reserves. Since the amount of Canada's exports financed by postwar loans and export credits of the Canadian Government was much less in 1948 than in the two preceding years there was a larger amount of convertible exchange received from trade with overseas countries in 1948, even though the current account surplus with this group of countries declined. Net postwar loans by Canada declined

Statement I - Summary of Current and Capital Transactions Between Canada and All Other Countries, 1945 - 1948

(Millions of Dollars)

	1945	1946	1947	1948(1)
Current Account				
Gross Current Receipts	4,456	3,365	3,746	4,139
Gross Current Payments	2,910	2,905	3,661	3,667
Current Account Balance	+1,546	+ 460	+ 85	+472
Current Deficit with U.S.A.	+ 36	- 607	-1,135	-401
Current Surplus with Overseas Countries	+1,510	+1,067	+1,220	+873
Official Contributions to Overseas Countries	- 858	- 97	- 38	- 19
Net Balance on Current Account (Excluding Official Contributions)	+ 688	+ 363	+ 47	+453
Capital Account				
Net Post War Loans by Canada (2)	- 105	- 750	- 563	-126
Repayments by U.K. on 1942 Loan	+ 64	+ 89	+ 104	+ 64
Financial Settlement with U.K.	-	+ 150	-	-
Interim Advances to British Countries	- 209	- 112	-	-
Gold Contribution to International Monetary Fund	-	- 1	- 74	-
All other Capital Movements(net) (3)	+ 229	+ 10	- 237	+105
Net Change in Official Liquid Reserves				
Decrease (+)		251	743	
Increase (-)	667			496
	- 688	- 363	- 47	-453

(1) Subject to revision.
(2) Excluding interim advances to British Countries.
(3) Including small balancing items of errors and omissions.

from $750 million in 1946 and $563 million in 1947 to $126 million in 1948. Cross drawings on the loans in the latter two years were $570 million and $142 million respectively. Exports of relief from Canada financed by official contributions of the Canadian Government also were less in 1948, being $19 million compared with $38 million in 1947 and $97 million in 1946. Consequently a larger part of exports to overseas countries yielded convertible exchange than in 1947.

Other capital movements in 1948 also had favourable effects upon Canada's liquid reserves whereas in 1947 they had resulted in the use of reserves. The chief contributing factor to the capital inflows in 1948 was the sale of $150 million of bonds by the Canadian Government to a group of insurance companies in the United States for the purpose of repaying amounts drawn in the first half of the year from the credit extended by the Export-Import Bank of Washington. Whereas in 1947 there had been large redemptions of Canadian securities owned abroad these transactions were much smaller in 1948, and in 1947 there had also been the gold contribution by Canada to the International Monetary Fund of $74 million.

offset by prior repayments of — $162 mm

A more comprehensive analysis of the balance of payments and Canada's international investment position will appear in the special report entitled "The Canadian Balance of International Payments, 1926 to 1948" to be issued at an early date.

Transactions with the United States

Most of the reduction of $734 million in 1948 in the current deficit with the United States occurred in the commodity account, net payments for merchandise being reduced from $890 million to $289 million or $601 million. The remainder of the reduction, $133 million, was distributed among all other current transactions, the deficit in these declining from $245 million to $112 million.

The improvement on commodity account was due to an increase of about 44% in the value of exports which rose from $1,061 million to $1,508 million and to a decline in the value of imports of $154 million.

Factors in Canada's Current Account Deficit with the United States
(Millions of Dollars)

	1929	1937	1946	1947	1948(2)
Merchandise Trade					
Imports from U.S.A. (adjusted)	875	463	1,378	1,951	1,797
Exports(1) to U.S.A. (adjusted)	519	391	948	1,061	1,508
	-356	- 72	- 430	- 890	- 289
Non-monetary gold	+ 37	+145	+ 96	+ 99	+ 119
Tourist expenditures	+103	+ 84	+ 86	+ 89	+ 158
Interest and dividends	-172	-180	- 203	- 239	- 230
Freight and shipping	- 35	- 23	- 68	- 117	- 84
All other current transactions	- 14	- 31	- 88	- 77	- 75
Total Current Deficit	-437	- 77	- 607	-1,135	- 401

(1) Including receipts by War Supplies Ltd. of $55 million in 1946 and $13 million in 1947.
(2) Subject to revision.

The increase in the value of exports occurred in a great many commodities, including the principal export staples. The increase was particularly large in lumber, pulp and paper, meat, cattle, coarse grains, non-ferrous metals, and agricultural implements. Some of these increases were due to diversions of exports from overseas markets, like lumber and meat, when overseas demand was reduced, and when the export controls were removed which had formerly limited or cut out shipments of many commodities to the United States, because of the need to supply overseas countries or because of internal shortages. Improving supplies of other commodities like coarse grains also contributed to the higher exports to the United States when restrictions on exports were withdrawn. At the same time the market in the United States for some commodities increased appreciably due to shortages of supplies and rising demands in the United States. The exceptionally high exports of Canadian aluminum and other non-ferrous metals provide an example of this development. Reductions in the United States tariff resulting from the Geneva meetings of the Conference on Trade and Employment also made for more favourable entry into the United States for many Canadian commodities. Prices in 1948 also contributed

an important part to the rise in the value of Canadian exports to the United States, particularly in the case of forest products and metals. But most of the impressive increase can be attributed to the increased volume arising from diversions of commodities, abnormal demands, and more favourable tariffs.

The volume of many types of imports from the United States was reduced by the effects of the prohibitions and quotas imposed by the Emergency Exchange Conservation programme introduced in November 1947. Examples of such declines are the reductions in imports of textiles and other consumers' goods. But the value and volume of imports of some other groups of commodities rose as a result of higher volume as well as the higher prices generally prevailing for most imports from the United States in 1948. Examples of important increases in value occurred in coal, some types of petroleum, and in machinery, the latter being a reflection of the continued upward trend in investments in Canada.

The most important change among other current transactions was the reduction in travel expenditures by Canadians in the United States due to the restrictions upon pleasure travel involving expenditures of United States currency and the prohibitions on purchases by travellers introduced in November 1947. Total Canadian expenditures in the United States on travel declined $40 million in 1948 to $112 million. At the same time United States travel expenditures in Canada continued to increase to $270 million with the result that the balance of receipts on travel account with the United States rose from $89 million in 1947 to $158 million in 1948. Another appreciable gain in receipts was from non-monetary gold which rose by $20 million to $119 million in 1948 as a result of higher production. A favourable trend also developed in freight and shipping payments, the balance of which declined $33 million due mainly to the reduced commodity deficit with the United States. But only a minor decline occurred in net payments on income account from the reduced payments of interest. Higher payments of dividends by publicly owned companies largely offset reduced payments by subsidiaries and controlled companies to United States parent companies.

Capital movements with the United States in 1948 were predominantly inward mainly due to the sale of the new issue of Canadian Government bonds of $150 million to a group of insurance companies in the United States, and to continued substantial inflows of capital for direct investment in Canada. These latter inflows constituted a large part of the item of $91 million of "other capital movements". Outflows of capital for the redemptions of Canadian securities owned in the United States dollar area of $96 million were less than half those for the preceding year. Transactions in outstanding securities resulted in only a relatively small outflow of capital in 1948. The sale of the new issue of $150 million was for the purpose of repaying the $140 million which had been drawn in the first half of 1948 by the Canadian Government on the credit from the Export-Import Bank of Washington arranged for late in 1947.

Transactions with Overseas Countries

The reduction of $347 million in the year in the current surplus with overseas countries which was reduced to $873 million in 1948 was chiefly in Canada's account with the sterling area. The current surplus with the sterling area decreased from $874 million in 1947 to

$617 million in 1948. The surplus with the United Kingdom declined from $633 million in 1947 to $488 million in 1948 as exports fell and imports rose. The surplus with the rest of the sterling area fell from $241 million to $129 million since this group of countries sharply reduced purchases in Canada. There was a reintroduction or extension of import controls in these countries following the deterioration in the financial position of the United Kingdom, as the financial position of these countries is closely related to that of the United Kingdom. Resulting declines in exports of manufactured goods from Canada to these countries were particularly widespread. There was also a smaller reduction in the current surplus with other "E.R.P." countries. Exports to these other countries belonging to the Organization for European Economic Cooperation were reduced while imports rose moderately. As a result the current surplus with this group was reduced from $281 million in 1947 to $242 million in 1948. These reductions in Canadian exports to the United Kingdom and other overseas countries developed in 1948 as many overseas countries found it necessary to reduce purchases in Canada even though the introduction of the European Recovery Programme did much to sustain effective overseas demand. If this special assistance had not developed during the year there would have been even sharper reductions in Canadian exports to overseas countries.

The value of Canadian exports to the United Kingdom reached a post-war peak of $749 million in 1947 but declined in 1948 to $703 million as the volume of exports was reduced appreciably with reductions in the quantities of some commodities purchased, like bacon and lumber, and the termination of other purchases in Canada like apples and beef. But a major increase occurred in Canadian imports from the United Kingdom which rose to $287 million from $182 million in 1947. This increase was the result of improving supplies, higher prices, and special opportunities for the expansion of British exports to Canada arising from the quotas on certain imports like textiles and automobiles introduced by the Canadian Government in November 1947 as part of the remedial measures taken at that time. These were followed early in 1948 by the temporary suspension of Canadian customs duties on certain textiles. Although a substantial increase occurred in imports of cotton textiles particularly, the volume of these imported in 1948 was still less than the prewar level and less than the export target in the United Kingdom.

Current transactions with all other foreign countries in 1948 resulted in a small surplus of $14 million compared with $65 million in 1947. While exports to these countries rose moderately there was a substantial increase in imports chiefly because of larger purchases of petroleum from Venezuela. In 1948 there was a deficit on commodity account with this group of countries, which includes Latin America, compared with a small export balance in 1947.

The principal change on capital account with the United Kingdom in 1948 was the reduction in the drawings on the Canadian loan to $52 million compared with $423 million in 1947. All of the drawings were in the first four months of 1948. Other capital movements to the sterling area were smaller than in 1947. Repatriations of $18 million of Canadian securities were smaller and repayments by the United Kingdom on the 1942 loan of $64 million were less than in the preceding year. The amount of this loan outstanding at the end of 1948 was $304.1 million. There was some increase in the amount of the deficit which was financed by receipts of convertible

Statement II - Transactions between Canada and the United Kingdom, Other Sterling Area, other "E.R.P." Countries, and Other Foreign Countries - 1947 and 1948

(Millions of Dollars)

	United Kingdom		Other Sterling Area		Other "E.R.P."(1) Countries		Other Foreign Countries	
	1947	1948(2)	1947	1948(2)	1947	1948(2)	1947	1948(2)
Current Transactions								
Exports - (adjusted)	749	703	366	293	333	296	214	230
Other Current Receipts	218	220	49	42	45	55	61	60
Total Current Receipts	967	923	415	335	378	351	275	290
Imports - (adjusted)	182	287	160	192	64	75	178	247
Other Current Payments	152	148	14	14	33	34	32	29
Total Current Payments	334	435	174	206	97	109	210	276
Current Surplus	+633	+488	+241	+129	+281	+242	+65	+14
Financing of Current Surplus								
Official Contributions by Canadian Government	-	-	(Covered in transactions shown with United Kingdom)		- 7	- 13	-31	- 6
Postwar loans by the Canadian Government (net)	-423	- 52			-116	- 51	-24	-23
Other Capital Movements (net) (3)	+ 54	+ 32			- 44	- 2	+ 9	+12
Sales of Convertible Exchange (net)	-505	-597			-114	-176	-19	+ 3
	-874	-617			-281	-242	-65	-14

(1) Includes countries belonging to the Organization for European Economic Cooperation and their overseas dependent territories. Iceland, Eire, and the overseas dependencies of the United Kingdom are included in the other sterling area.
(2) Subject to revision.
(3) Including balancing item of errors and omissions.

exchange compared with 1946 and 1947 when the drawings of $963 million on the Canadian loan to the United Kingdom were the principal method of financing. Receipts of convertible exchange from other overseas countries were also somewhat larger in 1948 principally because of reduced drawings on the export credit loans. Total drawings on these loans amounted to $90 million in 1948 of which $67 million was credit extended to other "E.R.P." countries than the United Kingdom and $23 million to other foreign countries. These amounts are exclusive of interest paid by funding during the year. There were principal repayments of $16 million on the loans during the year by "E.R.P." countries. In 1947 net export credits to "E.R.P." countries other than the United Kingdom were $116 million and to other foreign countries $24 million.

Table I - Summary of Preliminary Estimates of Canada's International Accounts, 1948.

(Millions of Dollars)

	All Countries	United Kingdom and Sterling Area	Other "E.R.P." Countries	Other Overseas Countries	United States
Current Account					
Current Balance (Including Exports of Official Relief)	+472	+617	+242	+14	-401
Contributions of Official Relief	- 19	-	- 13	- 6	-
Current Balance (Excluding Exports of Official Relief)	+453	+617	+229	+ 8	-401
Capital Account					
Post War Loan to U.K. and Export Credits					
Total Drawings on Loans	-142	- 52	- 67	-23	-
Principal Repayments	+ 16	-	+ 16	-	-
Net Loans	-126	- 52	- 51	-23	-
New Issue of Canadian Bonds in the United States	+150	-	-	-	+150
Retirements of Canadian Securities	-113	- 14	- 3	-	- 96(1)
Net Purchases of Outstanding Securities	- 17	- 4	- 2	-	- 11(1)
Other Capital Movements(2)	+152	+ 46	+ 3	+12	+ 91(1)
Net Receipts of Convertible Exchange from Overseas Countries	-	-597	-176	+ 3	+770
Balancing Item(3)	- 3	+ 4	-	-	- 7
Balance from above Current and Capital Transactions	+496	-	-	-	+496
Increase in Official Liquid Reserves	+496	-	-	-	+496

(1) Including some capital transactions on account of "other overseas countries".
(2) Including currency adjustments.
(3) The balancing item reflects errors and omissions.

N.B. A minus sign (-) designates payments, outflows of capital from Canada, or purchases of convertible exchange.

Table II - Current Account of the Canadian Balance of International Payments

Revised Statement for 1947 and Preliminary Estimates for 1948

(Millions of dollars)

	All Countries		United Kingdom		Other Sterling Area		United States		All Other Countries	
	1947	1948	1947	1948	1947	1948	1947	1948	1947	1948
A. Current Receipts										
Merchandise exports (adjusted)	2,710	3,030	749	703	366	293	1,048	1,508	547	526
Receipts by War Supplies Ltd.	13	-	-	-	-	-	13	-	-	-
Net exports of non-monetary	99	119	-	-	-	-	99	119	-	-
Tourist expenditures	251	282	7	9	1	1	241	270	2	2
Interest and dividends	62	70	8	9	5	4	35	37	14	20
Freight and shipping	322	337	114	107	39	30	104	132	65	68
Inheritances and immigrants funds .	69	83	47	52	1	3	18	17	3	11
All Other Current Receipts	220	218	42	43	3	4	153	157	22	14
Total Current Receipts	3,746	4,139	967(2)	923(2)	415(2)	335(2)	1,711	2,240	653(1)	641(3)
B. Current Payments										
Merchandise imports (adjusted)	2,535	2,598	182	287	160	192	1,951	1,797	242	322
Tourist expenditures	167	132	9	12	3	4	152	112	3	4
Interest and dividends	337	325	53	50	1	1	274	267	9	7
Freight and shipping	278	275	32	36	5	4	221	216	20	19
War expenditures	-	-	-	-	-	-	-	-	-	-
Inheritances and emigrants funds ..	49	49	8	6	-	1	37	37	4	5
All Other Current Payments	295	288	50	44	5	4	211	212	29	28
Total Current Payments	3,661	3,667	334	435	174	206	2,846	2,641	307	385
C. Current Account Balance	+85	+472	+633	+488	+241	+129	-1,135	-401	+346	+256
Contributions of Official Relief ..	-38	- 19	-	-	-	-	-	-	- 38	- 19
D. Net Balance on Current Account (Excluding Official Relief)	+47	+453	+633	+488	+241	+129	-1,135	-401	+308	+237

(1) Including contribution of official relief of $38 mm. and trade financed by Net Export Credits and advances of $140 mm.

(2) Credits with sterling area countries include trade financed by drawings of $423 mm. in 1947 and $52mm. in 1948 on the Canadian Loan to the United Kingdom.

(3) Including contributions of official relief of $19 mm. and trade financed by Net Export Credits of $74mm.

Table III - Statistics on Canada's International Investment Position

A. Summary - Non-Resident Investments in Canada, 1926-1947
(Millions of Canadian dollars)

	1926	1930	1939	1945	1946	1947(1)
Held in United Kingdom	2,636.3	2,766.3	2,475.9	1,750.0	1,668.0	1,642.0
Held in United States	3,196.3	4,659.5	4,151.4	4,990.0	5,157.0	5,187.0
Held in Other Countries	170.0	188.0	286.0	352.0	353.0	346.0
Total - Non-Resident Investments in Canada	6,002.6	7,613.8	6,913.3	7,092.0	7,178.0	7,175.0

B. Summary - Book Value of United States Direct Investments in Canada in Companies Controlled in the United States, by Forms of Investment, 1926-1947
(Millions of dollars)

	1926	1930	1939	1945	1946	1947(1)
Capital Stocks	1,000.0	1,329.4	1,289.2	1,613.0	1,691.0	1,796.0
Bonds	187.6	336.3	305.8	292.0	320.0	300.0
Other Investments	214.9	327.0	285.9	399.0	417.0	448.0
Total	1,402.5	1,992.7	1,880.9	2,304.0	2,428.0	2,544.0

C. Summary - Canadian Assets Abroad, 1930-1947
(Excluding Investments of Insurance Companies)
(Millions of Canadian dollars)

	1930	1939	1945	1946	1947
Direct Investments in Businesses Outside of Canada	443	671	720	772	822
Portfolio Holdings of Foreign Securities	842	719	621	551	579
Government Credits	31	31	707	1,362	1,816
Net External Assets of Canadian Banks	180	(2)	(2)	(2)	(2)
Official Liquid Reserves (3)	(2)	444	1,667	1,251	511
	1,496	1,865	3,715	3,936	3,728

(1) Subject to revision
(2) Not available. (3) Including holdings of gold which at the end of 1945 had a Canadian dollar value of $388 million, $536 million in 1946 and $286.6 million in 1947.

N.B. A more detailed analysis of British and Foreign Investments in Canada and Canadian Investments Abroad will be published in The Canadian Balance of International Payments, 1926-1948.

GOVERNMENT OF CANADA

THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

PRELIMINARY STATEMENT, 1949

A D.B.S. PUBLICATION

DOMINION BUREAU OF STATISTICS

DEPARTMENT OF TRADE AND COMMERCE

THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

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CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

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The Canadian Balance of International Payments, 1949

Canada's current account surplus with all countries in 1949 declined to $180 million from the surplus of $452 million in 1948, but this compares with a surplus of only $47 million in 1947. A reduced export balance on commodity account was the principal contributor to a smaller current surplus in 1949. Trends in other current transactions were also generally adverse.

These changes in 1949 occurred chiefly in the current account with the United States. Canada's current deficit with that country expanded sharply to $594 million from $393 million in 1948. The greatest single change was the growth in the value of imports which rose about 5%, reaching a level not far below the peak year, 1947, when prices were lower. The rise in value over 1948 is due to a combination of net price increases and a higher volume but the volume continued to be significantly less than in 1947 before import restrictions were introduced. Canadian exports to the United States continued to have an exceptionally high value. Most of the adverse trends in other current transactions also appeared in the account with the United States. The most notable of these were the increase in income payments by Canadian companies to parent companies and other shareholders in the United States and the sharp contraction in the net receipts from international travel expenditures. This balance of receipts was reduced by a sharp rise which occurred in the expenditures of Canadians on travel in the United States at a time when only a slight increase occurred in the value of United States tourist expenditures in Canada.

There was at the same time a significant decline in the current account surplus with overseas countries but this was both proportionately and absolutely less than the increase in the current account deficit with the United States. The decline in the current surplus with this group of overseas countries as a whole was from $845 million in 1948 to $774 million. The current surpluses with the United Kingdom and with the non-sterling overseas countries were both less than in 1948 but the surplus with the other countries of the sterling area was slightly higher in 1949 than in the preceding year. The reduction of $43 million in the surplus with the United Kingdom resulted from divergent trends in receipts and payments. While receipts declined slightly there was also a slight rise in current payments to the United Kingdom. The reduction in receipts was mainly in such current items as shipping receipts and transfers of immigrants' funds while the principal change in payments was an increase in Canadian imports from the United Kingdom. The slight gain in the current surplus with the rest of the sterling area was mostly due to the larger total of exports which were maintained by exceptionally high shipments of certain commodities like wheat and railway equipment to India and the Union of South Africa. The decline in the current surplus with other overseas countries was almost all due to reduced receipts from exports to Continental Europe and to lower revenues from freight and shipping services. Total current payments to this group of countries as a whole declined moderately with most of the decline in imports from countries other than the "E.R.P." group.

Influencing this trend in the Canadian balance of payments with overseas countries have been the exchange and balance of payments problems of overseas countries centering around their shortage of dollars. These overshadowing problems have led to restrictions by most overseas countries in expenditures in Canada and other dollar countries. The consequent effects upon Canadian trade in many commodities have been greater than appear in the trend in the totals shown with overseas countries as a whole. This is because of unusually large exports of certain commodities in 1949. Exceptionally large deliveries of wheat to a number of countries and of certain other special exports, like railway equipment, assisted in maintaining the total value of exports from Canada to overseas countries in a period when declines in other commodities were widespread. At the same time Canadian imports from most

Table I - Summary of Current and Capital Transactions Between Canada and All Other Countries, 1945 - 1949.
(Millions of Dollars)

	1945	1946	1947	1948	1949(1)
Current Account					
Gross Current Receipts	4,456	3,365	3,746	4,147	4,070
Gross Current Payments	2,910	2,905	3,661	3,676	3,890
Current Account Balance	+1,546	+ 460	+ 85	+ 471	+ 180
Current Deficit with U.S.A.	+ 36	- 607	-1,135	- 393	- 594
Current Surplus with Overseas Countries	+1,510	+1,067	+1,220	+ 864	+ 774
Official Contributions to Overseas Countries	- 858	- 97	- 38	- 19	-
Net Balance on Current Account (Excluding Official Contributions)	+ 688	+ 363	+ 47	+ 452	+ 180
Capital Account					
Net Post War Loans by Canada (2)	- 105	- 750	- 563	- 126	- 107
Repayments by U.K. on 1942 Loan	+ 64	+ 89	+ 104	+ 64	+ 5
Financial Settlement with U.K.	-	+ 150	-	-	-
Interim Advances to British Countries	- 209	- 112	-	-	-
Net Retirements of Canadian Secutiries Held Abroad	- 120	- 315	- 275	+ 37	- 42
All other Capital Movements (net) (3)	+ 349	+ 324	- 36	+ 69	+ 98
Net Change in Official Liquid Reserves	-21	-112 -114	~~+24~~ -10	+ 74	-74
Decrease (+)		- 251	- 743		
Increase (-)	667			496	134
	- 688	- 363	- 47	- 452	- 180

(1) Subject to revision.
(2) Excluding interim advances to British Countries.
(3) Including small balancing items of errors and omissions.

overseas countries only rose moderately because of the difficulties of supply abroad and the diversionary effects which alternative markets in soft currency countries had upon the available supplies of commodities required by Canada.

The rise in Canada's official reserves of $119 million U.S. was less than the current account surplus of $180 million with all countries as there were small net outflows of capital leading to the use of reserves in 1949. This contrasts with 1948 when capital movements contributed to the increase in position which rose $496 million although the current account surplus was only $452 million in that year. The principal capital movements contributing to the net outflow of capital in 1949 (exclusive of the increase in official reserves) were further drawings of $120 million on the Canadian loan to the United Kingdom. Other capital transactions, although predominantly inward, were insufficient to offset all of this type of outflow in 1949. Principal among the capital inflows in 1949 were continued inflows connected with the establishment and development of direct investments in Canada by United States and British firms and increases in certain non-resident balances in Canadian dollars. In 1948 the sale of the issue of $150 million in Government of Canada bonds in the United States was an unusual feature contributing to the net inflow of capital in that year.

Canada's official reserves of gold and United States dollars at the end of 1949 amounted to $1,117.1 million compared with $997.8 million at the end of 1948 and $501.7 million at the end of 1947. The increase of $119.3 million has a Canadian dollar equivalent of $134 million, the figure which is entered in the Canadian capital account where all figures are expressed in terms of Canadian dollars.

Among special factors of significance to the Canadian balance of payments in 1949 were the currency revaluations of September. Chief among these were the devaluation of sterling by 30.5% in terms of the United States dollar or 23.5% in relation to the new value of the Canadian dollar and the widespread devaluation of other currencies by varying amounts in the same period. The new value of the Canadian dollar established at the same time reflects a depreciation of close to 9.1% in relation to the United States dollar. While some effects of the currency revaluations of September upon the Canadian balance of payments were immediate and discernable other effects are more difficult to evaluate or less immediate in appearing. For example, the 1949 statement does reflect, in the period following the rate change, the higher Canadian dollar value of imports from the United States and from other countries maintaining the value of their currencies. Similarly in that period the Canadian dollar equivalent of imports from the United Kingdom and from other countries depreciating their currencies in relation to the Canadian dollar was lower than would have been the case before the rate change. Likewise most exports to the United States and other countries whose currencies are now appreciated in relation to the Canadian dollar have a higher Canadian dollar value. Some changes in the volume of exports and imports in the latter months of the year may also have been among the immediate effects of the devaluations. But the indirect and long-run effects of devaluation, which did not have time to show themselves in 1949, are those which will arise from such factors as new price relationships and changing elements in supply and demand.

General Trend in Merchandise Trade

Most prominent among changes in the Canadian current account in 1949 was the sharp reduction in the export balance on merchandise account with all countries from $432 million to $293 million. This resulted from a small contraction in the value of exports combined with a moderate increase in the value of imports. The reduction in exports occurred in exports to foreign overseas countries, principally Continental Europe. The rise in imports occurred in the value of purchases from the United States, there being a slight decline in the total value of imports from overseas countries as a group.

Table 2 - Changes in Merchandise Exports and Imports, 1949
(adjusted for balance of payments purposes)
(Millions of dollars)

	EXPORTS			IMPORTS		
	1948	1949	Net Change 1949	1948	1949	Net Change 1949
United Kingdom	703	701	- 2	287	300	+ 13
Rest of Sterling area ...	293	300	+ 7	192	187	- 5
Other "E.R.P." Countries.	296	246	- 50	75	79	+ 4
United States	1,508	1,521	+ 13	1,797	1,899	+102
Other Countries	230	221	- 9	247	231	- 16
Total, All Countries	3,030	2,989	- 41	2,598	2,696	+ 98

The principal reason for the contraction in the export balance to all countries was the expansion which occurred in the import balance with the United States which rose from $289 million to $378 million. Most of the growth in total imports occurred in imports from that country while exports to the United States were maintained in value for the year as a whole. But a small part of the deterioration in the commodity surplus occurred in the export balance with other foreign countries which declined from $721 million to $671 million. This chiefly resulted from the sharp contraction in exports to Continental Europe, with a drop in imports from foreign overseas countries offsetting a small part of the reduced exports. Exports to the sterling area were slightly higher while imports from the sterling area were slightly lower, a decline in imports from the rest of the sterling area being a little larger than the small rise in imports from the United Kingdom.

Various predominant influences affected the annual totals of trade. Exports to most overseas countries were affected throughout the year by import restrictions abroad arising from the general dollar shortage. The period up to the late summer was also influenced by business readjustments in the United States and the resulting declines in exports due to reduced demand in that country. This influenced the level of exports early in the year when appreciable declines in volume occurred from the level of the previous year. During the same period the level of Canadian prosperity maintained heavy demands for imports during a period when supplies abroad were improving and import restrictions were being relaxed. But a revival of United States demand for many primary commodities in the latter part of the year, combined with the immediate effects of devaluation, led to a sharp rise in the value of Canadian exports to the United States in the closing months of the year. In contrast during the same period the volume of Canadian imports from the United States fell off appreciably due partly to interruptions to the supplies of coal and steel in the United States. These divergent influences and their resulting trends led to small export surpluses with the United States in the last two months of the year.

Trend in Exports

The volume of Canadian exports in 1949 declined slightly more than the drop in value as export prices were higher during the year. The volume was 5.9% lower during the first half of 1949 than in the corresponding period of 1948 and approximately 17% less than in the second half of that year. The volume of exports in the second half of 1949 rose appreciably though it was still less than in the corresponding peak period of 1948.

Higher prices and a concentration of shipments of some commodities like wheat served to partly offset some of the effects of unfavourable trends in foreign demand in 1949 which led to reduced purchases of many commodities. Although the total of exports was down in 1949 there were some notable gains. Chief among these was a larger volume of wheat at higher average prices than in the previous year. As this was sufficient to more than offset declines in a number of other groups of farm products, exports of the agricultural and vegetable products group rose in value by 20%. The non-ferrous metal group also rose in value due to general increases in exports of most metals. Other metal products also rose due chiefly to large gains in exports of farm machinery, locomotives and railway equipment which more than offset declines in other metal products such as automobiles and parts.

But declines were general over a wide range of manufactured goods due to import restrictions abroad. Declines also occurred in the value of exports of

forest products, the largest export group in 1949. Exports of most of the important types of commodity in this group declined, particularly lumber and wood pulp. The chief exception was newsprint paper which rose, influenced particularly by the inclusion of Newfoundland production from April on. Exports of animals and animal products were also lower than in 1948 when there was a concentration of shipments following the removal of the embargo on certain exports to the United States. The sharp decline in shipments of bacon and eggs to the United Kingdom accounted for the largest part of the decline in exports of animal products. Other notable declines occurred in shipments of asbestos which were interrupted by the strike early in the year and in exports of ships which were about half the level of 1948 when there were large deliveries of new vessels as well as sales of older ships.

Table 3 - Exports of Selected Commodities from Canada to All Countries, 1948 and 1949

(Millions of dollars)

	1948	1949
Wheat	243.0	435.2
Wheat flour	125.2	97.7
Other grains	75.3	64.3
Fish and fishery products	85.0	93.7
Cattle	73.9	61.4
Bacon	70.0	24.2
Other meats	63.4	43.9
Eggs	39.2	20.9
Newsprint	383.1	433.9
Wood pulp	211.6	170.7
Planks and boards	196.0	160.4
Non-ferrous metals and products	395.9	426.6
Farm machinery	73.8	92.5
Other machinery	40.5	31.8
Ships	81.4	41.2
Automobiles and parts	55.0	38.7
Locomotives and parts	8.8	28.1
Railway cars and parts	6.6	21.9
Textiles and fibres	45.6	25.2

Concentration of exports in a few staple commodities is indicated by the higher ratios which some of the leading commodities occupied of total exports in 1949. Such leading commodities as wheat and flour, newsprint, other paper and wood pulp, and lumber and pulpwood constituted 40.2% of exports in 1948. In 1949 the ratio occupied by this group of principal exports rose to 45.0% due to the higher value of wheat and newsprint. Each of the other types of commodity in the group declined in value in 1949. A similar trend is evident in the field of manufactured products. While manufactured products occupied a smaller proportion of the total exports in 1949 a larger portion of these products was concentrated in a few special types than formerly such as agricultural implements, locomotives and railway equipment, and aircraft. Declines were general in other types of manufactured commodities such as automobiles and parts, rubber manufactures, textiles and ships. In 1949 these above special export products which rose constituted almost one-third of exports of general manufactures (excluding newsprint) whereas in 1948 they amounted to less than one-fifth of the total manufactured goods.

Trend in Imports

The trend in Canadian imports was upwards in the early part of the year being influenced by slightly higher prices, the strong demands springing from the level of Canadian prosperity, and by some relaxations in import restrictions. The volume was substantially higher in the first half of the year than in the same period of 1948 but an apparent softening in demand and some interruptions to the supply of fuel and steel appeared in the second half of the year. Consequently the volume of imports in the second half of the year declined and was less than in the second half of 1948. The most notable declines occurred in the last quarter of the year. For the year as a whole the volume of imports appears to have been slightly higher than in 1948. While these opposite trends within the year were to a large extent offsetting in the period as a whole there were significant changes in the volume of certain groups of commodities imported in the two years.

Table 4 - Imports of Selected Commodities to Canada from All Countries, 1948 and 1949

(Millions of dollars)

	1948	1949
Crude petroleum	192.0	189.4
Petroleum products	109.8	85.3
Coal	186.4	141.1
Agricultural machinery	140.0	177.2
Mining and metallurgical machinery	22.5	33.4
All other machinery	204.6	194.5
Automobiles and parts	128.6	162.2
Rolling mill products	83.9	98.1
Non-ferrous metal products	155.8	174.7
Cotton and manufactures	135.3	140.4
Woollen manufactures	115.1	100.1
Chemicals and products	118.4	130.7
Fruits and vegetables	67.1	91.8
Sugar and products	71.8	71.1

Particularly notable declines occurred in 1949 in the volume of imports of coal and petroleum products. Reductions in volume also occurred through a wide range of consumers' goods and certain types of non-farm machinery and equipment. In contrast the volume of many other commodities was higher of which examples are primary steel, tractors and other agricultural implements, passenger cars, many other metal products, and raw cotton. Improving supplies in the United States made possible these increases as the accumulation of Canadian demands had not been satisfied. The declines in volume can be attributed in some cases to a development of Canadian sources of supply as in the case of petroleum products, to interruptions in supplies in the United States as in the case of coal, and to some decline in Canadian demands from recent peaks as is reflected by the lower imports of many types of non-farm machinery and equipment.

Price Trends

Trends in export prices in 1949 were varied. Average export prices during the year to September were declining from the high level at the opening of the year. But in the first half of 1949 taken as a whole average export prices were 8% higher than in the same period of 1948 and slightly higher than in the second half of that year. However, the effect of the currency devaluations in September was to raise the Canadian dollar value of a large group of exports by an equivalent amount. Consequently average export prices in terms of Canadian dollars recovered from part of the decline which had occurred in the first three quarters of the year. Average import prices were also slightly higher in 1949 than in 1948. Similarly the trend in these prices was downward during the year to September but following the devaluation of currencies in that month the average of all import prices rose. Because of the declines in export prices during the year and a possible rise in import prices by the end of the year the terms of trade at the year end were somewhat less favourable than at the beginning of the year. For the year as a whole there appears to have been only a slight change in comparison with 1948.

Effects of Newfoundland Transactions

The general effects of the entry of Newfoundland into Confederation upon statistics employed in balance of payments statements should be noted. These effects are influenced by the practice of dealing with Newfoundland transactions before Confederation. At that time the most significant group of transactions on Newfoundland account, net U.S. dollar receipts, was included in miscellaneous current transactions while Canadian commodity trade with Newfoundland was excluded from the merchandise account shown in the balance of payments statement as transactions were within the Canadian dollar area. Since Confederation Newfoundland trade with other countries has been included in the merchandise account and has contributed to the export balance shown in the balance of payments. An export balance of $56.4 million is indicated from identifiable transactions in the nine months from April to December 1949. This is exclusive of imports for consumption in Newfoundland through Canadian Customs ports outside of Newfoundland. But entries in 1949 in the item, miscellaneous current receipts, to account for receipts of U.S. dollars on Newfoundland account have been reduced substantially as these transactions were limited to the early months of the year. Other entries on Newfoundland account elsewhere in the Canadian balance of payments in 1948 were comparatively small. The net effect of the change has been to add net credits to the Canadian current account in 1949 as the export balance on commodity account appears to have been considerably greater than the reduction in entries in the item, miscellaneous current receipts.

Trend in Other Current Transactions

The effect of all current transactions other than merchandise trade was to produce a large deficit with all countries of $113 million in 1949 compared with a surplus of $39 million in 1948. But in the former year there were also contributions of official relief amounting to $19 million which offset exports of a similar amount. These did not recur in 1949. The principal changes in 1949 in other current items occurred chiefly in an increase in current payments. Gross payments excluding official contributions rose by $116 million while gross receipts were $36 million less. Larger net payments on income account which rose by $52 million and a decline in the balance of receipts on travel and tourist account of $49 million were the principal sources of the adverse trend in 1949. Unfavourable trends also occurred

in net receipts on freight and shipping account and in net receipts of migrants' funds and inheritances. Net receipts from these two accounts declined by $19 million and $21 million respectively. Net payments for services and other current items also were higher during the year by $31 million. This is the change exclusive of official contributions which in 1948 were $19 million. The only favourable trend among the usual major current transactions was shown by non-monetary gold which rose by $20 million.

The increase in net payments on income account arose from the sharp increase which occurred in the dividends paid by Canadian subsidiaries to parent companies in the United States. The increase in these payments in 1949 was a reflection of the growth in 1948 earnings by this group of companies which were mainly remitted in 1949. Dividends paid by public companies to non-resident shareholders remained comparatively stable in the aggregate as did also interest payments to non-residents. The increase which occurred in receipts of income was due to larger receipts of interest by the Canadian Government on Export Credit loans.

The deterioration in net receipts on travel and tourist account arose from the sharp increase in the expenditures of Canadian travellers in the United States and elsewhere. More than half of these increased expenditures originated from purchases by tourists of goods whose entry was permitted by the removal of import restrictions on imports by travellers under the $100 exemption privilege. Some increase also took place in the volume of Canadian travel to overseas countries. The expenditures of United States travellers in Canada remained comparatively stable in 1949 with the result that the balance of receipts was sharply reduced by the rise in Canadian expenditures. The relative stability of total expenditures of American tourists was after some varying trends in certain sectors of the trade. A decline occurred in the expenditures of short-term visitors but this was offset by a larger volume of motorists and other longer-term visitors.

The drop in net receipts on freight and shipping account resulted from various changes in the background affecting these transactions during the year. A lower volume of exports led to generally reduced receipts. But the revenues from inland freight in Canada were partly maintained by higher freight rates. Also affecting the amount of shipping receipts was the reduced size of the Canadian merchant fleet which was reduced by sales of vessels both in 1948 and 1949. The full operation and revenues of the remaining Canadian ships were also affected adversely by increasing competition from abroad, which was intensified by currency devaluations in September. These various factors cut Canadian receipts from freight and shipping materially but part of these declines was offset by a reduction in freight payments made by Canada on imports, a considerable portion of which was due to the reduced volume of coal imported in 1949.

The reduction in net receipts of immigrants' funds originated almost entirely from the decline in the volume of immigration to Canada and the effects of currency restrictions on transfers of funds to Canada. Outflows of funds arising from Canadian emigration were maintained at about the same level as in 1948.

The increase in net payments for the remaining group of current payments arises from a variety of changes. Gross payments were higher partly due to the higher Canadian dollar value of these following devaluation while gross current receipts were lower. One prominent influence on this latter decline was the change in the practice of dealing with net receipts on Newfoundland account which had added substantially to the item in 1948.

In addition there were debits in 1948 of $19 million arising out of the final expenditures of the Canadian contributions to UNRRA and post-UNRRA relief which did not recur in 1949. These are included in the totals of all other current payments shown in detailed statements of the current account. The amount of exports financed in this way in 1948 was made up of $13 million to other "E.R.P." countries and $6 million to other foreign countries.

The rise in the value of non-monetary gold is a reflection of increased production made possible by improved supplies of labour and new mines and the higher Canadian dollar value of gold production following the devaluation of the Canadian dollar in September.

Capital Movements

The net movement of capital between Canada and all countries, apart from the rise in official reserves, was outward in 1949 in contrast to a small inward movement in 1948. This net outward movement of $43 million in 1949 compares with a net inward movement of $40 million in the former year. This change in net movement arose primarily from the absence in 1949 of the large special inflow which had resulted in 1948 from the sale in the United States of a bond issue of $150 million of the Government of Canada, combined with a continuation in 1949 in the extension of credit to the United Kingdom by the Canadian Government to finance exports.

In the two previous years, 1946 and 1947, there had been very large net outward movements of capital contributing to the reductions in official reserves in those years. These outward movements arose mainly from the large volume of exports financed by loans and advances by the Canadian Government.

The principal changes occurring in the direction and relative significance of the different capital movements in 1949 compared with the general pattern of the Canadian capital account in 1948 follow. In the former year the sale in the United States of $150 million of Canadian bonds was an outstandingly large transaction contributing to capital inflows. But in 1949, although there was a new Canadian Government issue in the United States of $100 million, this was for the purpose of refinancing two government guaranteed issues being retired late in 1949, and one issue in February 1950. As most of these issues were held in the United States only a comparatively small inflow of capital arose from the holdings of the bonds by residents of Canada, along with the small temporary inflow prior to the redemption of the issue of C.N.R. bonds in February 1950. As a result of these security transactions and of the retirement of other Canadian securities owned outside of Canada there was a small outflow of capital in 1949 compared with a net inflow in the earlier year, arising from the amount by which the sale of the new issue in 1948 exceeded all retirements in that year of Canadian securities owned outside of Canada.

Another group of inward capital movements which occurred in 1948 on a larger scale than in 1949 were the repayments by the United Kingdom on the 1942 loan which declined from $64 million in 1948 to $5 million in 1949.

There were, however, in 1949 other types of inflow of capital which had not occurred in 1948. These took the form of a substantial rise in certain non-resident balances in Canadian dollars.

Drawings of $120 million on loans by the Canadian Government to other countries in 1949 were limited to the $10 million a month released from the remainder

of the post-war credit of $1,250 million to the United Kingdom. By the end of 1949 the total which had been drawn on this loan amounted to $1,135 million. Drawings on this loan in 1948 had been limited to $52 million. But in that year drawings on Export Credit loans to other countries totalled $90 million. In the same year principal repayments on these Export Credit loans amounted to $16 million, leaving net drawings of $126 million on post-war loans. In 1949 there were no further drawings on the Export Credit loans to other countries as the drawing periods of the loans had expired and the only capital transactions connected with the Export Credit loans were the repayments of principal of $13 million. Consequently net drawings on post-war loans and Export Credits in 1949 amounted to $107 million compared with $126 million in the previous year, $563 million in 1947, $750 million in 1946, and $105 million in 1945.

Among all other capital movements in 1949 the largest were the inflows connected with the establishment and development of direct investments in Canada by United States and British firms. These were somewhat heavier than in the earlier year with the larger amount of the total being employed in the development of natural resources. In addition there were some liquidations of Canadian assets owned outside of Canada, further adding to the net inflows of capital. Also contributing to larger net inflows through this group of transactions in 1949 was the change in the direction of the international trade in outstanding securities between Canada and other countries. There were net sales of outstanding Canadian and American securities by Canada to other countries, principally the United States. Although the balance of $22 million continued to be relatively small it compares with net purchases of $17 million in the previous year. These various miscellaneous capital movements of a predominantly inward direction had the effect of offsetting part of the other outflows described above.

As a result of the above divergent capital movements there was a comparatively small net outward balance to the movements of capital referred to. This contrasts with the result in 1948 for the corresponding movements when there were net inflows contributing to the rise in official reserves. In 1949 in contrast the rise in the official reserves was less than the balance on current account.

Transactions with the United States

The principal change in Canada's current account in 1949 was the increase of $201 million in the current deficit with the United States which rose from $393 million in 1948 to $594 million in 1949. This deterioration in the current account balance was due to a variety of factors. The largest single change was an increase of $89 million in the deficit on merchandise account which rose to $378 million. This was due entirely to the growth in the value of imports as the value of exports was slightly higher. The deficit from all other current transactions with the United States rose from $104 million in 1948 to $216 million in 1949. The most important contributing factors to this deterioration were the decline of $48 million in net receipts from international tourist expenditures, an increase of $55 million in net payments on income account, and an increase of $38 million in net payments on account of miscellaneous current transactions. An increase in the value of gold production of $20 million and a drop of $9 million in net payments on freight and shipping account only offset minor parts of the above increases in expenditures.

A predominant factor influencing the trend in the merchandise account in 1949 was the divergence of economic conditions in Canada and the United States. While United States demand, particularly in the middle part of the year was reduced by

business readjustments occurring mostly in the first half of the year, there was a maintenance of Canadian demand throughout most of the year by the continued high level of business activity in Canada. This sustained Canadian prosperity led to an appreciably higher volume of imports from the United States in the earlier part of the year which together with higher prices contributed towards the increased value of Canadian imports from the United States. Relaxations of some restrictions on imports and improving supplies of commodities also influenced the increased imports. But in the latter months of the year the strikes in the steel and coal industries in the United States led to interruptions in supply which affected the volume of Canadian imports. While the value of Canadian exports was slightly higher than in the preceding year this was due to higher average export prices. The volume of some exports to the United States was lower in the year as a whole than in 1948. During the period of business readjustment reductions in volume were widespread but later these were partly offset by a higher volume following the revival of demand later in the year.

Table 5 - Factors in Canada's Current Account Deficit with the United States

(Millions of Canadian Dollars)

	1929	1937	1946	1947	1948	1949(2)	Net Change 1949
Merchandise Trade							
Imports from U.S.A. (adjusted)	875	463	1,378	1,951	1,797	1,899	-102
Exports(1) to U.S.A. (adjusted)	519	391	948	1,061	1,508	1,521	+ 13
	-356	- 72	- 430	- 890	- 289	- 378	- 89
Non-monetary gold	+ 37	+145	+ 96	+ 99	+ 119	+ 139	+ 20
Tourist expenditures	+103	+ 84	+ 86	+ 89	+ 154	+ 106	- 48
Interest and dividends	-172	-180	- 203	- 239	- 230	- 285	- 55
Freight and shipping	- 35	- 23	- 68	- 117	- 82	- 73	+ 9
All other current transactions	- 14	- 31	- 88	- 77	- 65	- 103	- 38
Total Current Deficit	-437	- 77	- 607	-1,135	- 393	- 594	-201

(1) Including receipts by War Supplies Ltd. of $55 million in 1946 and $13 million in 1947.
(2) Subject to revision.

Although the total value of exports to the United States was maintained in 1949 for the year as a whole this was due to opposite trends in different groups of commodities and to varying trends during the year. Exports of metals and metal products and agricultural and vegetable products were higher in value. But most of the increases in these groups were offset by reductions in the value of exports of other groups, a large part of which occurred in forest products and animal products. Particularly notable among the increases in exports were such items as iron ore, agricultural implements, newsprint, base metals, and certain grains. Although there was a general decline in exports of forest products which was notable in wood pulp and certain types of lumber, exports of newsprint and some kinds of lumber reached new high levels. While the value of exports of live cattle showed some declines from the record levels reached in 1948 following the removal of embargoes the total exported remained high and exports of beef were higher. Exports to the United States in 1949 amounted to more than half of the total recorded value of Canadian shipments, the percentage being 50.2% compared with 48.8% in 1948 and 32.8% in 1938. The percentage of adjusted exports as appears in the balance of payments statement was 50.9% in 1949.

The increase in the value of imports from the United States occurred in each of the main groups except non-metallic minerals which reflected declines in imports of crude petroleum and products and coal. While some of the increase in value can be attributed to the higher Canadian dollar cost of imports from the United States following devaluation most of the increase in the value of imports occurred in the months prior to September, a period when some Canadian demands seem to have been highest and when supplies were unaffected by the strikes occurring in the latter months of the year. Almost two-thirds of the increased value of imports in 1949 occurred in the metal products groups. Demands were particularly heavy for commodities in these groups in the earlier part of the year when supplies were uninterrupted. Further contributing to these gains in value were the price increases among these commodities which were larger and more general than in other groups.

But declines occurred in the volume of imports from the United States in the latter months of the year. This decline in the latter months of the year appears to have been influenced by a variety of factors. The over-all decline in the volume of imports in the fourth quarter can be mainly traced to the falling off in imports of iron and its products and non-metallic minerals. Supplies of many commodities, like coal and primary steel, entering into these groups were affected by the strikes in the coal and steel industries in the United States in the latter months of the year. But the declines appear to have been due to other factors as well, as in the case of metal products where in particular the volume of many types of machinery imported was reduced. Some reductions in Canadian demands, which had been satisfied in earlier periods, seem to have occurred. At the same time there were affecting all types of imports from the United States the higher Canadian dollar costs of purchases in the United States following the devaluation of the Canadian dollar in September.

Only a part of the increase in imports from the United States in 1949 seems to be attributable to relaxations in import restrictions imposed under the Emergency Exchange Conservation Act. The increase in official reserves made it possible to remove some of the restrictions. While many of the resulting increases were proportionately large they only accounted for a portion of the total rise in the value of imports in 1949. Among the relaxations affecting imports in 1949 was the removal of some commodities from the prohibited list at the beginning of the year. In addition there was a general removal of controls on imports of fresh fruits and vegetables at the beginning of October 1949 following increases in quotas applying to these commodities on two earlier occasions, October 1st 1948 and April 1st 1949. At the latter date the quotas on textiles had also been increased by approximately 25%. Other relaxations early in 1949 led to increased imports of a variety of production materials and capital goods when the allotment permits were increased substantially. Controls on imports of primary iron and steel were also modified during the year making larger imports possible as the supply improved. Removal of restrictions on incidental purchases by travellers under the $100 exemption privilege at the beginning of the year also led to increased imports.

The proportion of Canada's total recorded imports bought from the United States increased from 68.5% in 1948 to 70.7% in 1949 but remained below the corresponding 1947 ratio of 76.7%. Part of the increase in 1949 arises from tourist purchases which however are included in the balance of payments in the item of tourist expenditures rather than the merchandise item of the balance of payments.

The decline in the net receipts on international travel account between Canada and the United States was due to the sharp rise in expenditures of Canadians on travel in the United States which at $164 million showed an increase of .51

million, or 45% over 1948. This was a much greater increase than occurred in the personal incomes of Canadians. More than half of this increase in expenditures by travellers was due to tourist purchases under the $100 exemption privilege following the relaxations of import prohibitions on these purchases at the beginning of 1949. The remainder of the increase resulted from a larger volume of traffic and from higher average expenditures. United States expenditures at $270 million remained close to the total of the previous year. In this connection it should be noted that total personal incomes in the United States in 1949 did not change significantly even with the business recession which took place during the year. While the volume and expenditures of longer-term American motorists and certain other groups of tourists were higher, there were declines in the expenditures by the short-term local classes of traffic. The latter declines appear to reflect a falling off in local purchasing at border communities.

The increase in the deficit on income account was due to a sharp rise in total payments to $325 million. This increase was in dividends paid by Canadian companies to the United States. These payments rose from $183 million in 1948 to $242 million in 1949, a new peak comparing with $139 million in the year 1938. The increase was concentrated in dividend payments by Canadian subsidiaries to parent companies in the United States and reflects the high earnings of 1948 which were remitted in 1949. Dividend payments by public companies to portfolio shareholders in the United States were comparatively stable. Interest payments on Canadian bonds and debentures held in the United States declined slightly to $83 million, due chiefly to the effects of redemptions in recent years. The additional cost of United States dollar interest only added a small amount to payments in the last part of the year. Receipts of income from the United States of $40 million were slightly higher than in previous years, receipts of both interest and dividends being larger. A small part of this gain came from the higher Canadian dollar value of income in United States currency in the last quarter.

There was an increase of $38 million in net payments on account of miscellaneous current transactions. A prominent factor affecting this increase was a change in statistical practice following the entry of Newfoundland into Confederation. Prior to then net receipts of United States dollars on Newfoundland account were included in miscellaneous current receipts. But a considerable part of the increased deficit arose from higher payments for business services and in the last part of the year there was also the additional Canadian dollar cost of payments in United States currency following the rate change. Migrants' funds and inheritances were higher in both directions in 1949 with no change in the balance of payments by Canada.

Gold available for export in 1949 had a value in Canadian currency of $139 million, $20 million more than in 1948. Part of this rise in value was from the higher price following the devaluation of the Canadian dollar but a larger production throughout the year was responsible for most of the increase. This item is included in the current account with the United States even though only a small part of gold production in 1949 was exported to that country, as the remainder was either available for addition to Canada's reserves of gold and United States dollars or for sale for United States dollars.

A decline of $9 million in net payments on freight and shipping account was the only other favourable trend on balance in the current account with the United States. This resulted from a larger decline in payments than in receipts. Smaller freight payments on the reduced imports of coal accounted for most of the reduction. Payments to United States railways for inland freight on other commodities were about the same as in 1948 while payments on shipping account were

somewhat higher. The reduction in receipts was in the earnings of Canadian railways on inland freight on exports to the United States and on intransit traffic. The earnings of Canadian shipping companies on exports to the United States by vessels were however higher although there were larger charter payments offsetting some of these earnings.

Table 6 - Selected Factors Affecting the Size of Canada's Official Liquid Reserves, 1946-1949
(Millions of Dollars)

	1946	1947	1948	1949(2)
Current Account Deficit with United States	-607	-1,135	-393	-594
Net receipts of convertible exchange from overseas	+237	+ 638	+763	+663
Net Current Deficiency	-370	- 497	+370	+ 69
Capital Transactions with U.S. Dollar Area (1)				
Net Redemptions of Canadian Securities	-238	- 227	- 96	- 30
Sale of new Canadian issue to insurance companies	-	-	+150	-
Net sales (+) or net repurchases (-) of outstanding Canadian securities	+204	- 8	- 2)	
Redemptions and sales of U.S. and foreign securities (net)	+ 64	+ 13	- 9)	+ 39
All other capital movements	+ 78	+ 58	+ 87	+ 50
Gold subscription to International Monetary Fund	- 1	- 74	-	-
Balancing item - errors and omissions	+ 12	- 8	- 4	+ 6
Net Change in Official Liquid Reserves -				
Decrease (+)	251	743	-	-
Increase (-)	-	-	496	134

(1) Capital transactions in Canadian dollars with foreign countries belonging to the Special Arrangement Area in 1947, 1948 and 1949, and other known transactions with other countries in 1949, are excluded.
(2) Subject to revision.

Capital Movements with the U.S. Dollar Area

Capital movements between Canada and the United States were inwards on balance in 1949 as in 1948. Inflows arising from private capital movements were larger in 1949 but the total net inflow in 1948 was greater because of the sale of a new Government of Canada issue of $150 million in the United States in that year. Various changes contributed to the larger private inflow of capital. There was, for instance, a change in the direction of the international trade in securities. In 1949 there were net sales of outstanding securities to the United States compared with net purchases by Canada in 1948. Most of these net sales occurred in the latter months of 1949 and during the year there were net sales of both Canadian and United States

securities. In addition in 1949 inflows for direct investment were heavier as various developments of Canadian resources which were financed by United States capital proceeded. There were also some liquidations of U.S. assets owned by residents of Canada further adding to the inflows. Total redemptions of Canadian securities owned in the United States were greater in 1949 than in 1948. Part of the redemptions was financed by the sale of a new Government of Canada issue of $100 million in the United States and the resulting amount of net redemptions of securities amounted to $30 million. This compares with net new issues of Canadian securities owned abroad in 1948 as the new issue of $150 million in that year exceeded the total redemptions of Canadian securities in the United States which amounted to $96 million in that year. Part of the new issue in 1949 was for the purpose of retiring the C.N.R. 5's of 1970, an issue with a par value of $17.3 million which was called for redemption in February 1950. There was consequently a temporary inflow in 1949 of the funds required to redeem this issue.

A summary of factors affecting the rise in the official position of $119 million U.S. as shown in the Summary of Preliminary Estimates of Canada's International Accounts. This rise in official position had a Canadian dollar equivalent of $134 million, the figure which is entered to cover this change in the capital account of the Canadian balance of payments. Net receipts of convertible exchange from overseas countries in 1949 amounted to $663 million. These arise from direct sales of U.S. dollars by overseas countries and from a variety of different types of multilateral settlement.

Changes in the value of United States investments in Canada due to capital movements were comparatively small in 1949 as this analysis of capital movements in the capital account of the balance of payments indicates. While there continued to be some further substantial transfers of capital for direct investments in Canadian businesses changes in holdings of portfolio securities were minor and partly offsetting. Data are not yet available on other changes in the value of United States investments in Canada due to reinvestments of earnings and other alterations in value of the investments. At the end of 1948 the value of total United States investments in Canada was $5.6 billion of which $2.8 billion was made up of direct investments in branches, subsidiaries, and controlled companies. In both cases these total were higher than in any other earlier period.

Table 7 - Canada's Holdings of Gold and U.S. Dollars(1)

(In millions of U.S. Dollars)

	Gold	U.S. Dollars(2)	Total
Dec. 31, 1939	218.0	186.2	404.2
Dec. 31, 1940	136.5	195.6	332.1
Dec. 31, 1941	135.9	51.7	187.6
Dec. 31, 1942	154.9	163.6	318.5
Dec. 31, 1943	224.4	425.2	649.6
Dec. 31, 1944	293.9	608.3	902.2
Dec. 31, 1945	353.9	1,154.1	1,508.0
Dec. 31, 1946	536.0	708.9	1,244.9
Dec. 31, 1947	286.6	215.1	501.7
Dec. 31, 1948	401.3	596.5	997.8
Dec. 31, 1949	486.4	630.7	1,117.1

(1) Exclusive of working balances and gold held against Postal Savings Bank deposits, but including private balances of 98 in 1939 and 2 in 1940.

(2) Includes United States exchange and short-term securities of the United States Government.

Transactions with the Sterling Area

Canada's current surplus with the sterling area of $578 million was only 6% less than the corresponding balance of $615 million in 1948. The current surplus with the United Kingdom of $443 million was down slightly more than the balance with the whole sterling area, comparing with $486 million in 1948. A slight rise occurred in the surplus with the rest of the sterling area which rose from $129 million to $135 million. Most of the reduction of $37 million in the current balance with the sterling area occurred in current receipts which dropped $30 million, the remainder of the change in balance being due to a rise of $7 million in current payments by Canada.

But this apparent stability in result was due to a variety of offsetting changes which were in themselves often substantial and significant and to some extent transitory. Some of these changes are pointed out below in the description of more detailed trends.

One of the outstanding factors maintaining the value of exports to the United Kingdom was the larger volume of exports of wheat which were at a higher price than in most of the preceding year. There were also larger exports of some base metals like aluminum and nickel and deliveries of aircraft acting to maintain the total of exports, which at $701 million was approximately the same as the adjusted value of exports in 1948. There were also some special sales of commodities like fresh apples and canned salmon which had not been sold in the previous year and new exports like iron ore arising out of the inclusion of Newfoundland exports to the United Kingdom in April and succeeding months. But substantial declines occurred in exports of other important commodities of which examples are flour, bacon, eggs, and lumber.

Canadian imports from the United Kingdom rose only moderately in 1949. The value adjusted for balance of payments purposes of $300 million compares with $287 million in 1948. The gain in imports of metal products was greater than this but an appreciable decline occurred in the value of imports of textiles. Much of the decline in this group was in various types of cotton products and in worsted tops, although imports of many woollen products were also below their recent peaks. The most substantial rise in imports of metal products was in motor cars which doubled in value, being about $54 million in 1949 although other imports of metal products, like primary iron and steel, tractors, and other manufactured goods also rose. Increases in other leading groups of commodities were also general but they still represent a minor part of total imports. Textiles and metal products made up more than two-thirds of imports from the United Kingdom in 1949 or about the same ratio as in the previous year. Among the factors appearing to continue to limit Canadian imports from the United Kingdom have been the inadequate supplies of commodities in relation to the exceptionally heavy demands for these commodities in the sterling area and elsewhere. In the middle of 1949 the Canadian tariff on certain textiles (which had been suspended early in 1948) was reimposed. In the closing months of 1949, following the devaluation of sterling, the volume of imports was substantial, being above the same period of the previous year. But the sterling cost of these imports had a reduced value in terms of Canadian funds. The proportion of Canadian imports from the United Kingdom declined slightly in 1949 and was still substantially less than before the war.

The changes in commodity trade with the United Kingdom described above led to a reduction of $15 million in the export balance. The largest part of the reduction of $43 million in the current account surplus with the United Kingdom

Table 8 - Summary of Current and Capital Transactions Between Canada and the Sterling Area, 1938 and 1946-1949
(Millions of dollars)

	1938(1)	1946	1947	1948	1949(3)
Current Account -					
Gross Current Receipts	508	1,149	1,382	1,260	1,230
Gross Current Payments	337	480	508	645	652
Current Account Balance	+171	+ 669	+ 874	+ 615	+ 578
Current surplus with United Kingdom	+127	+ 500	+ 633	+ 486	+ 443
Current surplus with Other Sterling Area (1)	+ 44	+ 169	+ 241	+ 129	+ 135
Mutual Aid	-	- 5	-	-	
Net Balance on Current Account (Excluding Mutual Aid)	+171	+ 664	+ 874	+ 615	+ 578
Capital Account -					
Postwar Loan to United Kingdom	-	- 540	- 423	- 52	- 120
Repayments by U.K. on War Loan	-	+ 89	+ 104	+ 64	+ 5
British Financial Settlement and Interim Advances (net)	-	+ 38	-	-	-
Repatriations of Securities	- 33	- 131	- 50	- 18	- 27
Other Capital Movements	- 26	+ 29	- 7	- 20	+ 60
Net Capital Movements	- 59	- 515	- 376	- 26	- 82
Sales of Gold or Convertible Exchange	-112(2)	- 150	- 505	- 597	- 487
Balancing Item	-	+ 1	+ 7	+ 8	- 9
	-171	- 664	- 874	- 615	- 578

(1) Includes only Commonwealth countries in 1938.
(2) In 1938 this item indicates the net amount of exchange available for multilateral settlements.
(3) Subject to revision.

occurred in other current items, principally in current receipts. The chief declines in these were in receipts on freight and shipping transactions and in immigrants' funds. The decline of $14 million in the former was a combination of reduced expenditures in Canadian ports by British ships and reduced revenues earned by Canadian shipping companies carrying exports to the United Kingdom. The decline in immigrants' funds was a reflection of a sharp reduction in the volume of immigration combined with the effects in the full year of the British restrictions introduced in 1948 on transfers by immigrants from the United Kingdom. The volume of immigration in 1949 dropped to less than half that in 1948 and the decline in transfers was comparable. Total receipts of immigrants' funds and inheritances of $34 million were down $18 million, the figure being still sustained by inheritances. Changes in other current receipts in 1949 were minor. There was a moderate increase in British tourist

expenditures in Canada and no change in receipts of interest and dividends from the United Kingdom. Other current payments to the United Kingdom dropped only slightly in 1949. There were, however, appreciable increases in the travel expenditures by Canadians in the United Kingdom and in interest and dividend payments to the United Kingdom and in emigrants' transfers and inheritances. A slight decline in freight and shipping payments and a larger decline in all other current payments more than offset the above increases. The expenditures of Canadian travellers in the United Kingdom rose by one-third over the previous year, a reflection partly of improved trans-Atlantic transportation facilities. An increase of 10% in interest and dividend payments to the United Kingdom which totalled $55 million was distributed between interest and dividends and partly arose from the inclusion of payments on Newfoundland obligations.

The increase of $6 million in the current surplus with the remaining countries of the sterling area stands out paradoxically in light of the sharp contractions which occurred in 1949 in purchases by most sterling area countries in Canada. One of the principal factors leading to this result was a slight increase in aggregate exports to this group of countries. This was due to the sustaining effects on the totals of extraordinarily large shipments of wheat, locomotives, and railway equipment to India and the Union of South Africa. These and some other largely non-recurring exports were concentrated in 1949 and offset sharp declines in Canadian exports to such Commonwealth countries as some of the Crown colonies in the British West Indies and elsewhere and other declines to Australia and New Zealand. Declines in exports of automobiles and general manufactured goods were particularly widespread as import restrictions throughout the sterling area have greatly reduced this kind of purchase in Canada.

Although Canadian imports from the countries of the sterling area other than the United Kingdom were slightly less than in the preceding year there were some significant shifts in composition. Most notable of these was a diversion of sugar purchases to Commonwealth countries from dollar countries in the West Indies and Central America. But at the same time there were declines in imports of some Commonwealth commodities such as jute and rubber.

The above merchandise transactions resulted in an export balance of $113 million, about 13% higher than in 1948. There was also a surplus of $25 million from other current transactions in 1949, a slightly smaller figure than in 1948. A variety of minor changes influenced this result including a slightly smaller surplus on freight and shipping account which is the largest contributor to the surplus from non-commodity transactions with the rest of the sterling area. This reflects a reduction in the revenues of Canadian ships carrying exports to these countries.

Capital Movements with the Sterling Area

Drawings on the Canadian loan to the United Kingdom of $120 million in 1949 were again the principal special capital means serving to finance part of the current account surplus of $678 million which Canada had with the sterling area. By the end of the year $1,135 million of the loan of $1,250 million extended in 1946 had been drawn, leaving $115 million unspent at the end of 1949. All other capital movements were inwards on balance in 1949 due to a large increase in sterling area balances in Canada. In addition there were further repayments of $5.2 million on the 1942 loan, the amount of which remaining outstanding at the end of 1949 was $298.9 million. Other capital movements between Canada and the sterling

area included outflows of $11 million for redemptions of Canadian securities and some $16 million for other repatriations of securities arising from British liquidations of outstanding issues. There were also numerous other capital movements many of which were offsetting. These arose out of various kinds of private transactions including direct investments in Canada by the United Kingdom and Canadian direct investments in the sterling area. Multilateral settlements, principally in the form of transfers of United States dollars to Canada on sterling area account, were again the largest single means of covering the gap in the sterling area accounts with Canada. Total transfers of convertible exchange on sterling area account in 1949 including multilateral settlements amounted to some $487 million.

Transactions with other "E.R.P." Countries

The principal change in Canada's current account with other countries belonging to the Organization for European Economic Cooperation was a decline in the current surplus. Most of this was due to a contraction in exports which declined to $246 million in 1949, a drop of about 17%. The sharpest declines occurred in exports to France, Italy, and the Netherlands. In the case of the former country most of the decline occurred in deliveries of ships which had been exceptionally concentrated in 1948 although there were also declines in other commodities, particularly base metals. A considerable part of the reduction in exports to Italy was concentrated in grains and other foods. In the case of the Netherlands the reductions were distributed over a wide range of commodities, including grains and other vegetable products, and a variety of raw materials. In contrast to these declines there were substantial gains in exports to certain other countries, notably Belgium, Germany, and Switzerland. In the case of exports to Belgium larger shipments of wheat and other grains were prominent and with Germany the increases were distributed over a variety of foods and raw materials. Larger exports of wheat also made up the principal change in exports to Switzerland.

Canadian imports from other "E.R.P." countries rose only slightly in total in 1949. This was due to some opposite trends. While there were substantial gains in imports from some countries, most notably Belgium, Germany, Italy, and Switzerland a large decline in abnormal imports of butter from Denmark offset much of these increases.

The decline in the export balance with this group of countries was $54 million during the year. But official contributions by the Canadian Government to UNRRA and post-UNRRA financed $13 million of these exports in 1948 and debits representing these contributions have been entered in the item "All Other Current Payments". The remaining current transactions give rise to a slightly larger balance of receipts than in 1948. One of the principal changes was an increase of $8 million in interest received on Export Credit loans. But at the same time earnings of Canadian shipping companies on traffic to this group of countries were lower. Other changes included a substantial increase in the expenditures of Canadians on travel in Continental Europe which at $6 million was double the previous year. Stimulating this increase was the improvement in transportation and the extension of facilities for spending Canadian dollars in most of the countries of Western Europe during 1949.

Capital movements with this group of "E.R.P." countries and the non-sterling area were comparatively small and outward on balance from Canada. While there were repayments on Export Credit loans of around $11 million these receipts were more than offset by outflows arising from liquidations of direct and other investments in Canada, redemptions of Canadian securities, and from a decline in

the balances of this group of countries in Canada. Consequently most of the current account surplus of $187 million in 1949 was settled by transfers of convertible exchange to Canada estimated at $171 million and comparing with $176 million in 1948.

Transactions with Other Foreign Countries

Current transactions with this group of other foreign countries overseas continued to be close to equilibrium in 1949 as in 1948. The current surplus in the two years was only $3 million and $9 million respectively. But with individual countries and regions within the group there were varying degrees of disequilibrium. Canada had, for instance, a merchandise deficit with Latin America due to a large extent to imports of petroleum from Venezuela and a variety of tropical commodities like coffee from Brazil and Colombia, raw cotton from Mexico, and bananas from Central America. This deficit with Latin America was smaller than in 1948 when imports were higher, having included most of Canada's sugar purchases in that year. Other countries in the group were widely dispersed throughout the world including, in the case of exports, prominent markets like China, Egypt, Iran, Japan, Palestine, and the Philippines. The origins of imports from the same regions were also widely scattered but there was some concentration in countries like Arabia, China, Japan, and the Philippines. A commodity surplus originated from total trade with these other foreign countries exclusive of Latin America but it was less than the commodity deficit with Latin America. Commodity trade with the whole group of other foreign countries showed a deficit of $10 million in 1949. All other current transactions produced a surplus of $19 million in 1949, slightly less than the surplus from corresponding transactions in 1948. The principal contributors to this surplus were interest and dividends on Canadian investments in Latin America and freight and shipping services by Canadian shipping companies. But receipts from sources such as these were partly offset by payments for services including personal remittances to various countries in Asia and elsewhere. Most of the small current account surplus with the group was settled with transfers of convertible exchange as capital movements with other foreign countries were comparatively small.

Table 8(a) - Summary of Current and Capital Transactions with Other "E.R.P." Countries (1), 1947-1949

(Millions of dollars)

	1947	1948	1949
Current Receipts	378	348	304
Current Payments	97	108	117
Official Contributions	7	13	-
Current Account Balance	+274	+227	+187
Post-War Loans by Canadian Government (net)	-116	- 51	+ 11
Other Capital Movements	- 44	-	- 27
Net Sales of Convertible Exchange	-114	-176	-171
	-274	-227	-187

(1) Includes countries belonging to the Organization for European Economic Cooperation and their overseas dependent territories. Iceland, Ireland, and the overseas dependencies of the United Kingdom are included in the other sterling area.

Table 9 - Summary of Revised Estimates of Canada's International Accounts, 1948

(Millions of dollars)

	All Countries	United Kindgom and Sterling Area	Other "E.R.P." Countries	Other Overseas Countries	United States
Current Account					
Current Balance (Including Exports of Official Relief)	+ 471	+ 615	+ 240	+ 9	- 393
Contributions of Official Relief	- 19	-	- 13	- 6	-
Current Balance (Excluding Exports of Official Relief)	+ 452	+ 615	+ 227	+ 3	- 393
Capital Account					
Post War Loan to U.K. and Export Credits					
Total Drawings on Loans	- 142	- 52	- 67	- 23	-
Principal Repayments	+ 16	-	+ 16	-	-
Net Loans	- 126	- 52	- 51	- 23	-
New Issue of Canadian Bonds in the United States	+ 150	-	-	-	+ 150
Retirements of Canadian Securities	- 113	- 14	- 3	-	- 96(1)
Net Purchases of Outstanding Securities	- 17	- 4	- 2	-	- 11(1)
Other Capital Movements(2)	+ 146	+ 44	+ 5	+ 10	+ 87(1)
Net Receipts of Convertible Exchange from Overseas Countries	-	- 597	- 176	+ 10	+ 763
Balancing Item (3)	+ 4	+ 8	-	-	- 4
Balance from above Transactions	+ 496	-	-	-	+ 496
Increase in Official Liquid Reserves	+ 496	-	-	-	+ 496

(1) Including some capital transactions on account of "other overseas countries".
(2) Including currency adjustments. (3) The balancing item reflects errors and omissions.
N.B. A minus sign (-) designates payments, outflows of capital from Canada, or purchases of convertible exchange.

Table 10 - Summary of Preliminary Estimates of Canada's International Accounts, 1949

(Millions of dollars)

	All Countries	United Kingdom and Sterling Area	Other "E.R.P." Countries	Other Overseas Countries	United States
Current Account					
Current Account Balance	+ 180	+ 578	+ 187	+ 9	- 594
Capital Account					
Post War Loan to U.K. and Export Credits					
Total Drawings on Loans	- 120	- 120	-	-	-
Principal Repayments	+ 13	-	+ 11	+ 2	-
Net Loans	- 107	- 120	+ 11	+ 2	-
Net Retirements of Canadian Securities	- 42	- 11	- 1	-	- 30(1)
Net Trade in Outstanding Securities	+ 22	- 16	- 2	+ 1	+ 39(1)
Other Capital Movements	+ 84	+ 65	- 24	- 7	+ 50(1)
Net Receipts of Convertible Exchange from Overseas Countries	-	- 487	-171	- 5	+ 663
Balancing Item (2)	- 3	- 9	-	-	+ 6
Balance from all above Transactions	+ 134	-	-	-	+ 134
Increase in Official Liquid Reserves	+ 134	-	-	-	+ 134

(1) Including some capital transactions on account of "other overseas countries".

(2) The Balancing item reflects errors and omissions.

N.B. A minus sign (-) designates payments, outflows of capital from Canada, or purchases of convertible exchange.

Table 11 - Current Account of the Canadian Balance of International Payments
Revised Statement for 1948 and Preliminary Estimates for 1949

(Millions of Canadian dollars)

	All Countries		United Kingdom		Other Sterling Area		United States		Other "E.R.P." Countries		All Other Countries	
	1948	1949	1948	1949	1948	1949	1948	1949	1948	1949	1948	1949
A. Current Receipts												
Merchandise exports (adjusted)	3,030	2,989	703	701	293	300	1,508	1,521	296	246	230	221
Gold available for export	119	139	-	-	-	-	119	139	-	-	-	-
Tourist expenditures	279	288	9	11	1	2	267	270	2	4	-	1
Interest and dividends	70	83	9	9	4	4	37	40	6	14	14	16
Freight and shipping	336	293	105	89	34	30	131	120	32	28	34	26
Inheritances and immigrants' funds	84	66	52	34	2	1	18	20	8	8	4	3
All other current receipts	229	212	44	46	4	3	167	151	4	4	10	8
Total Current Receipts	4,147	4,070	922	890	338	340	2,247	2,261	348	304	292	275
B. Current Payments												
Merchandise imports (adjusted)	2,598	2,696	287	300	192	187	1,797	1,899	75	79	247	231
Tourist expenditures	133	191	12	16	4	4	113	164	3	6	1	1
Interest and dividends	325	390	50	55	1	1	267	325	5	7	2	2
Freight and shipping	279	255	34	32	7	5	213	193	15	16	10	9
Inheritances and emigrants' funds	50	53	7	10	1	2	37	39	1	1	4	1
All other current payments (1)	310	305	46	34	4	6	213	235	22	8	25	22
Total Current Payments	3,695	3,890	436	447	209	205	2,640	2,855	121	117	289	266
C. Current Account Balance	+ 452	+ 180	+486	+443	+129	+135	- 393	- 594	+227	+187	+ 3	+ 9

(1) Including contributions of official relief of $19 million in 1948, of which $13 million was to "E.R.P." countries and $6 million to other countries.

Table 12 - Current Account Between Canada and All Countries, 1926-1949
(Millions of dollars)

Year	Current Receipts	Current Expenditures	Net Balance On Current Account	Mutual Aid and Other Official Contributions	Net Balance on Current Account Excluding Official Contributions
1926 ..	1,665	1,538	+ 127	-	+ 127
1927 ..	1,633	1,643	- 10	-	- 10
1928 ..	1,788	1,820	- 32	-	- 32
1929 ..	1,646	1,957	- 311	-	- 311
1930 ..	1,297	1,634	- 337	-	- 337
1931 ..	972	1,146	- 174	-	- 174
1932 ..	808	904	- 96	-	- 96
1933 ..	829	831	- 2	-	- 2
1934 ..	1,020	952	+ 68	-	+ 68
1935 ..	1,145	1,020	+ 125	-	+ 125
1936 ..	1,430	1,186	+ 244	-	+ 244
1937 ..	1,593	1,413	+ 180	-	+ 180
1938 ..	1,361	1,261	+ 100	-	+ 100
1939 ..	1,457	1,331	+ 126	-	+ 126
1940 ..	1,776	1,627	+ 149	-	+ 149
1941 ..	2,458	1,967	+ 491	-	+ 491
1942 ..	3,376	2,275	+ 1,101	1,002	+ 99
1943 ..	4,064	2,858	+ 1,206	518	+ 688
1944 ..	4,557	3,539	+ 1,018	960	+ 58
1945 ..	4,456	2,910	+ 1,546	858	+ 688
1946 ..	3,365	2,905	+ 460	97	+ 363
1947 ..	3,746	3,661	+ 85	38	+ 47
1948 ..	4,147	3,676	+ 471	19	+ 452
1949 ..	4,070	3,890	+ 180	-	+ 180

Table 13 - Geographical Distribution of the Balance on Current Account, 1926-1949
(Millions of dollars)

Year	All Countries	United (1) Kingdom	Other Overseas (2) Countries	United (3) States
1926	+ 127	+ 58	+ 300	- 231
1927	- 10	- 19	+ 257	- 248
1928	- 32	- 21	+ 338	- 349
1929	- 311	- 99	+ 225	- 437
1930	- 337	- 106	+ 113	- 344
1931	- 174	- 54	+ 85	- 205
1932	- 96	- 14	+ 86	- 168
1933	- 2	+ 26	+ 85	- 113
1934	+ 68	+ 46	+ 102	- 80
1935	+ 125	+ 62	+ 92	- 29
1936	+ 244	+ 122	+ 123	- 1
1937	+ 180	+ 135	+ 122	- 77
1938	+ 100	+ 127	+ 122	- 149
1939	+ 126	+ 137	+ 105	- 116
1940	+ 149	+ 343	+ 98	- 292
1941	+ 491	+ 734	+ 75	- 318
1942	+ 1,101	+ 1,223	+ 58	- 180
1943	+ 1,206	+ 1,149	+ 76	- 19
1944	+ 1,018	+ 746	+ 241	+ 31
1945	+ 1,546	+ 747	+ 763	+ 36
1946	+ 460	+ 500	+ 567	- 607
1947	+ 85	+ 633	+ 587	- 1,135
1948	+ 471	+ 486	+ 378	- 393
1949	+ 180	+ 443	+ 331	- 594

(1) Excl. wheat exports diverted to other overseas countries, and exports of gold (2) Incl. estimated wheat sold in European Countries. (3) Incl. all net exports of non-monetary gold.

Table 14. - Statistics on Canada's International Investment Position

A. Summary - Non-Resident Investments in Canada, 1926-1948
(Millions of Canadian dollars)

	1926	1930	1939	1945	1946	1947	1948(1)
Held in United Kingdom.	2,636.3	2,766.3	2,475.9	1,750.0	1,668.0	1,631.0	1,593.0
Held in United States..	3,196.3	4,659.5	4,151.4	4,990.0	5,157.0	5,218.0	5,588.0
Held in Other Countries	170.0	188.0	286.0	352.0	353.0	343.0	332.0
Total - Non-Resident Investments in Canada.	6,002.6	7,613.8	6,913.3	7,092.0	7,178.0	7,192.0	7,513.0

B. Summary - Book Value of United States Direct Investments in Canada In Companies Controlled in the United States, by Forms of Investment, 1926-1948
(Millions of Canadian dollars)

	1926	1930	1939	1945	1946	1947	1948(1)
Capital Stocks	1,000.0	1,329.4	1,289.2	1,613.0	1,691.0	1,806.0	2,061.0
Bonds	187.6	336.3	305.8	292.0	320.0	311.0	321.0
Other Investments	214.9	327.0	285.9	399.0	417.0	448.0	447.0
Total	1,402.5	1,992.7	1,880.9	2,304.0	2,428.0	2,565.0	2,829.0

C. Summary - Canadian Assets Abroad, 1930-1948
(Excluding Investments of Insurance Companies)
(Millions of Canadian dollars)

	1930	1939	1945	1946	1947	1948(1)
Direct Investments Outside of Canada ...	443	671	720	772	822	788
Portfolio Holdings of Foreign Securities	842	719	621	551	579	605
Government Credits	31	31	707	1,362	1,816	1,878
Net External Assets of Canadian Banks ..	180	(2)	(2)	(2)	(2)	(2)
Official Liquid Reserves (3)	(2)	444	1,667	1,251	511	1,006
	1,496	1,865	3,715	3,936	3,728	4,277

(1) Subject to revision.

(2) Not available. (3) Including holdings of gold which at the end of 1945 had a Canadian dollar value of $388 million, $536 million in 1946, $286.6 million in 1947 and $401.3 million in 1948.

N.B. A more detailed analysis of British and Foreign Investments in Canada and Canadian Investments Abroad has been published in The Canadian Balance of International Payments, 1926-1948.

GOVERNMENT OF CANADA

THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1950

A D.B.S. PUBLICATION

DOMINION BUREAU OF STATISTICS – DEPARTMENT OF TRADE AND COMMERCE

THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1950

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THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1950

There were numerous pronounced changes in the general outlines of Canada's transactions in goods and services with other countries. For the first time in a long period of years a current deficit appeared in an annual statement as expenditures on goods and services exceeded receipts. There were also unusually pronounced changes in the direction of Canadian trade which reduced greatly the current surplus from trade with overseas countries, particularly the sterling area. This occurred at a time when the current deficit with the United States was shrinking as Canadian exports to that country expanded sharply.

Emergence of Current Deficit

Canada's current transactions in all goods and services with other countries in 1950 led to an excess of all types of imports over all exports of $316 million. This deficit in the current account compares with current surpluses of $187 million in 1949, $452 million in 1948, and $47 million in 1947. The deficit is small, however, in relation to the gross volume of trade at the present time, being only 8% of total current credits during 1950. The principal reason for the net change of $503 million in the current balance between 1949 and 1950 was a rise of 17% in the total of current expenditures by Canada during 1950 compared with an increase of only 4% in current receipts from goods and services.

While this is the first time for a long period of years in which a current deficit has appeared in the Canadian current account, the circumstances and general background in 1950 were not directly comparable to earlier periods when the Canadian current account showed a deficit. The most recent earlier period in which deficits appeared terminated in 1933. In 1930, for example, when there was a current deficit of comparable size to that reached in 1950, this was much larger in relation to the volume of trade at that time. In 1930 the current deficit of $337 million was 26% of total current credits in that year which compares with the much smaller ratio of only 8% which the current deficit in 1950 represented ot total current receipts. Furthermore, in the earlier year the current deficit occurred at a time when export revenues were shrinking rapidly.

The greatest rise in debits in 1950 occurred in imports of merchandise. The adjusted value of imports from all countries rose $433 million, about half of which was due to price increases and the remainder to a larger volume. This volume was much higher in the second half of the year following the outbreak of hostilities in Korea although slightly lower in the

TABLE 1. Summary of Changes in Current Receipts and Payments Between Canada and All Other Countries — 1950

(Millions of dollars)

—	Current Receipts		Change in 1950
	1949	1950	
Commodity exports (adjusted)	2,989	3,139	+150
All other current receipts	1,088	1,090	+ 2
Total current receipts	**4,077**	**4,229**	**+152**
	Current Payments		Change in 1950
	1949	1950	
Commodity imports (adjusted)	2,696	3,129	+433
All other current payments	1,194	1,416	+222
Total current payments	**3,890**	**4,545**	**+655**
Current balance	**+187**	**-316**	**-503**

first half than in the same period of 1949. In 1950 as a whole the volume of imports was probably still less than during 1947 but well above 1948 when import restrictions were at a peak. At the same time the adjusted value of merchandise exports rose by $150 million, a change which seems to have been due to a higher level of export prices. The latter prices, however, did not rise as much as import prices in the year as a whole. The net deterioration in the balance of merchandise trade of $283 million from the previous year is, then, due to a combination of a larger volume of imports at a time when the volume of exports remained comparatively stable, and a slight deterioration in the terms of trade.

The remaining change of $220 million in the net current account decline of $503 million is the result of adverse trends among all other current transactions. The largest of these was the increase in dividend payments which alone accounted for $74 million. Other adverse trends were a decline in the balance of receipts on travel account due to higher Canadian expenditures abroad and reduced receipts from tourists, the appearance of a deficit on freight and shipping account and a deficit from transfers of migrants' funds and inheritances. These adverse trends were only slighlty offset by the higher value of Canadian gold production during the year.

TABLE 2. Summary of Changes in the Principal Elements of Canada's Current Account with All Countries — 1950

(Millions of dollars)

—	1949	1950	Change in 1950
Exports (adjusted)	2,989	3,139	+150
Imports (adjusted)	2,696	3,129	+433
Commodity balance	+293	+ 10	-283
Gold available for export	+139	+163	+ 24
Tourist and travel expenditures	+ 94	+ 53	- 41
Interest and dividends	-307	-381	- 74
Freight and shipping	+ 50	- 14	- 64
Inheritances and migrants' funds	+ 13	- 7	- 20
All other current transactions	- 95	-140	- 45
Total Current Transactions	**+187**	**-316**	**-503**

Changes in Direction of Trade

Besides the appearance of a current deficit in Canada's account with all countries there were very outstanding changes occurring in the amount of bilateral disequilibrium in the accounts with the United States and the United Kingdom and the rest of the sterling area. The exceptionally large amount of unbalance between exports and imports in the bilateral accounts between Canada and these countries and regions in earlier years has been an outstanding feature of the Canadian balance of international payments. Unprecedented changes in the direction of Canadian trade were the principal factors bringing about this alteration in the appearance of Canada's accounts with different parts of the world. This unbalanced condition of trade, which reached a postwar peak in 1947, virtually disappeared in the account between Canada and the sterling area and was greatly reduced in the account with the United States during 1950. As the shrinkage in the current surplus with the sterling area and other overseas countries was greater than the reduction in the current deficit with the United States, there was a net overall deterioration in the Canadian current account with all countries.

The principal single factor influencing this great change in the bilateral accounts was the change in the direction of Canadian exports. The proportion of Canadian exports to the United States rose to 65.2% from the previous record ratio of 50.9% in 1949. At the same time the ratio of exports to the United Kingdom declined from 23.5% to 14.9% and exports to other Commonwealth countries dropped from 10.0% to 6.4%, with a slight decline in the ratio to other overseas countries as well. Revival of United States demand following the business readjustments in 1949 was augmented by further strength as defence activities got under way in the second half of the year. This strengthening of United States demand coincided with further curtailment in purchases of Canadian goods by the United Kingdom and other countries of the sterling area particularly. This reduction in overseas demand made more supplies of some commodities available for sale to meet the growing demands in the United States. At the same time the supply of commodities in the United Kingdom and other European countries was better, leading to a rise in the percentage of Canadian imports from overseas countries. Imports from the United Kingdom rose from

TABLE 3. Summary of Changes in Current Balances Between Canada and the Principal Countries and Areas — 1950

(Millions of dollars)

—	1949	1950	Change in 1950
Between Canada and:			
United States	- 589	- 394	+195
United Kingdom	+439	+ 33	- 406
Other sterling area	+135	- 26	- 161
Other E.R.P. countries	+187	+112	- 75
All other countries	+ 15	- 41	- 56
Total — All Countries	**+187**	**- 316**	**- 503**

11.1% in 1949 to 12.8% in 1950 and from other countries the increase was from 18.4% to 20.4% with the result that the United States accounted for 66.9% of Canadian imports in 1950 compared with 70.4% in the previous year.

These two groups of basic changes in the direction of trade combined to accentuate the changes which occurred in the balance of Canadian trade with different countries and areas. The sharp decline in the balance of exports to overseas countries was due to a combination of increased imports as well as the large reduction in exports. But the reduction in the import balance with the United States was much less than the decline in the export balance with overseas countries. Although the rise in exports to the United States more than compensated for the decline in exports to overseas countries, an increase occurred in the value of imports from the United States even though the proportion of Canadian imports from that country declined. The increase in the value of imports from the United States was enough to keep the reduction in the adverse balance of trade with that country below the extent of the deterioration in the favourable balance of trade with overseas countries.

General Changes in Trade of Overseas World with North America

The decline which occurred in the current surplus of the balance of payments between Canada and overseas countries in 1950 was a phenomenon which was not limited to Canada alone. A great change also occurred in the trade of the overseas world with the United States as well. In that case also there were declines in exports from the United States and increases in imports by that country. This reduction in the disequilibrium connected with trade between the overseas world and North America was part of a general readjustment which took place in international trade during the period following the currency revaluations of September 1949 and the revival of United States demand in the latter part of the same year. These factors, combined with restrictions placed by many overseas countries — most notably those of the sterling area — on expenditures in North America, influenced the downward trend in outward shipments. At the same time the revival of demand for many commodities produced in the overseas world, accentuated by defence demands in the latter part of 1950 and the higher prices which resulted, made for a higher value of North American imports from overseas. These influences on both exports and imports combined to reduce greatly the disequilibrium which had been so great in the early postwar years.

The reduction in disequilibrium between Canada and the United States was not unrelated to the influences bringing about the above changes. A larger volume of Canadian raw materials and other commodities was available for export to the United States with the reduction in overseas demand. The strengthening of United States demand improved the market for these, and higher Canadian dollar values of exports resulted from the devalued Canadian dollar as well as the upward movement in prices. At the same time the reduction in disequilibrium resulting from the increase in the value of Canadian exports to the United States was partly offset by a higher value of imports from the United States. These were influenced by the strong Canadian demands for United States goods springing from the high level of Canadian activity and prosperity and the cost of these imports in Canadian dollars was in turn affected by the devalued Canadian dollar and the rising price level in the United States.

Canadian economic activity was at a new peak in 1950 and this continuation of prosperity at high levels had close interrelationships with the balance of payments. The gross national expenditure at $17.7 billion was up about 8% over 1949, a development due to both higher prices and larger volume. Personal expenditures on consumption, government expenditures and private investment were each higher. In the case of personal consumption the rise in value was about 7% with a gain in volume of almost half of this.

Expenditures by governments on goods and services were up about 10%. Private investment in plant and equipment was about 7% higher, reflecting in the main higher prices. There was at the same time a very sharp rise in inventories of both agricultural and non-farm types. All forms of investment taken together constituted a larger proportion of the gross national product than in the previous year. It is worth noting that whereas private gross home investment rose from 18.7% of gross national expenditure in 1949 to 22.1% in 1950, current credits from exports of goods and services changed from 24.4% in 1949 to 23.7% in 1950. It should be added that in absolute terms current export credits were still larger in 1950, being $4,200 million as compared to $3,908 million for private gross home investment. As the trend in the current account of the balance of payments shows, the place of this balance in gross national expenditure was quite different in 1950 from 1949 and earlier, being negative in contrast to the positive balances of previous years. The effects on the balance of payments of the high levels of demand indicated by gross national expenditure were of varied origins. Imports of all goods and services increased in volume by some 9% while the volume of exports of goods and services showed little change. The higher volume of personal consumption and the large accumulation in inventories particularly would directly strengthen many import demands. The maintenance of an exceptionally high level of investment in plant and equipment also contributed to the maintenance of many types of imports at a high level, even though the volume of this group of investments does not seem to have been significantly different than in the previous year and in some types had started to decline. The rise in investment income of 21% was also a substantial influence on current payments by Canada.

Capital Movements

Changes in capital movements between Canada and other countries were also unusually pronounced in 1950. The outstanding feature of capital movements during the year was the unprecedented volume of inflows which were most heavily concentrated in the summer months. These capital inflows were the largest single factor affecting the rise in the Canadian official reserves of gold and U.S. dollars which increased $625 million in 1950 to a total of $1,741.7 million. Another feature of the inflow was the heavy concentration in the months of August and September when the rise in reserves amounted to some 75% of the year's increase.

TABLE 4. Canada's Official Holdings of Gold and U.S. Dollars[1]

(In millions of U.S. dollars)

—	Gold	U.S. dollars[2]	Total
December 31, 1944	293.9	608.3	902.2
December 31, 1945	353.9	1,154.1	1,508.0
December 31, 1946	536.0	708.9	1,244.9
December 31, 1947	286.6	215.1	501.7
December 31, 1948	401.3	596.5	997.8
December 31, 1949	486.4	630.7	1,117.1
December 31, 1950	580.2	1,161.5	1,741.7

1. Exclusive of working balances and gold held against Postal Savings Bank deposits, but including private balances of 98 in 1939 and 2 in 1940.
2. Includes United States exchange and short-term securities of the United States Government.

As the existence of a current account deficit suggests, the total net inflow of capital was even greater than the rise in the reserves would in itself indicate. Net inflows were of the order of $1 billion and took a variety of forms. The chief of these were purchases by non-residents of Canadian securities, direct investments by United States companies in Canadian industry, rises in the balances in Canadian currency held in Canadian banks by non-residents, and a variety of inflows connected with commercial trade conveniently referred to as "leads and lags" and some liquidations of foreign assets by residents of Canada.

Each of these main groups of inflow was unusually large in 1950 and in the aggregate the inflow of all types of capital exceeded that occurring in any earlier period in Canada's financial history. The inflows were heavily concentrated in the summer months before the announcement of the withdrawal

of a fixed rate of exchange by the Government at the beginning of October. During the period of heaviest inflows there was an atmosphere of speculation in the United States regarding future values of Canadian currency in relation to United States currency. While much of the inflow seemed to be part of a widespread movement from United States currency to Canadian currency, other parts of the inflow were an extension and continuation of general tendencies showing throughout the postwar period for United States investors to build up long term investments in Canada. Continued heavy inflows for direct investment in the development of Canada's resources and industries and many investments in Canadian securities were examples of this kind of capital movement.

The inflows of capital during 1950 were of numerous types. The largest part of the inflows led to increases in Canada's external liabilities in contrast to a smaller, although appreciable part, which resulted from reductions in Canada's external assets. The increases in liabilities took a variety of forms. Some of the inflows led to more permanent investments where funds were invested in plant and equipment and long term investments in Canadian securities. Other inflows, in contrast, were of a demand type such as balances established with Canadian banks. Due to the variety of motivating factors it is difficult to distinguish always clearly the purpose and potential durability of many of the investments. The large group of inflows connected with the purchase of Canadian securities was subject to many different motives and is the result of a mixture of long and short term movements. It is, therefore, not easy to appraise the full significance which the capital movements to Canada in 1950 had on the Canadian balance of international indebtedness.

The largest and most characteristic inflow during the period of heaviest movements was that arising out of the American demand for Canadian securities. While there had been some net sales of Canadian securities to the United States throughout the year, demand for these first began to expand in the earlier part of the summer with a rapid increase in the volume of demand appearing in August. Even in August the movement was several times that of all but a few months in the past years of heavy inflow. In September the movement rose to an even higher rate and showed no sign of abatement until the departure from the fixed exchange rate. Net amounts of outstanding Canadian securities acquired by residents of the United States rose from over $50 million in August to some three times that rate in September. The movement in the latter month was more comparable in size to annual inflows of exceptionally heavy capital movements in recent war and postwar years. In the year as a whole net acquisitions of outstanding Canadian securities by all non-residents amounted to some $329 million. Most of these securities were Government of Canada domestic issues, although demand for other groups of Canadian securities was also substantial.

These inflows for the acquisition of outstanding securities were further augmented by a large number of new issues of Canadian securities sold in the United States both publicly and privately. These had a value of close to $200 million in United States currency. These sales covered a large part of the Canadian bond issues which were redeemed during the year. As a result net redemptions of Canadian securities, after allowing for new issues, amounted to some $44 million in the case of securities held in the U.S. dollar area. In addition, there were net redemptions of some $18 million of securities held in the United Kingdom. These figures include the new Government of Canada issue of $50 million sold in September for the purpose of covering part of the $100 million issue which was redeemed in October.

Inflows of capital for direct investment in Canada were also of exceptional size in 1950. Net transfers of funds, including some reinvestments of dividends, amounted to $167 million, as far as the investment activities of United States companies in Canada are concerned. This is about double the corresponding type of inflow in the previous year. Furthermore, these figures are exclusive of the investment of undistributed earnings, a type of capital movement which is not included in the capital account of the balance of payments although it has direct effects on the value of United States direct investments in Canada. A large part of the capital inflow in 1950 was in connection with the development of oil resources in Western Canada and mineral resources in the Eastern part of the country, although many important industrial developments were also financed by parent organizations in the United States through transfers of funds to Canada.

The rises in balances of non-residents in Canada were also unusually high. These occurred both in balances of residents of the sterling area as well as those owned by residents of the U.S. dollar area. The rise in the former was related to the changing nature of the balance of payments between Canada and the sterling area, while the rise in the balances of residents of the United States occurred in the period of heavy capital movements from United States to Canadian currency.

Another group of inflows of a generally short term character were those arising from the leads and lags connected with commercial trade. These generally followed two types which might be anticipated under the circumstances existing in most of the year. There were, for instance, the changes which took the form of increases in Canadian liabilities to United States suppliers, such as accounts payable for imports and other types of obligation. There were also leads and lags connected with reductions in private working balances and other forms of short term assets, like accounts receivable for Canadian exports. Other substantial inflows of capital took the form of liquidations of other Canadian assets abroad, such as the disposal of United States and foreign securities owned by residents which latter type alone amounted to $66 million.

The net movement of capital connected with Canadian Government loans to other governments was not large in 1950. Drawings on the British loan were limited to the $50 million in the first half of the year. But repayments on postwar loans by foreign governments amounted to some $22 million during

the year, and there were repayments by the United Kingdom on the 1942 loan of $42 million and also a repayment of $9 million on the Newfoundland loan. The net extension of credit on postwar loans by the Canadian Government of $28 million compares with $107 million in 1949, $563 million in 1947 and $750 million in 1946 when drawings of this form of financial assistance from Canada were at a peak.

Current Transactions with the United States

The current deficit with the United States was reduced by $195 million. The chief feature influencing this change was the rise in exports to that country which reached an unprecedented 65.2% of Canadian exports. But a large part of the spectacular rise in exports of $525 million was offset by increased imports of $194 million. Another offset was the substantially larger net payments to the United States for all other current items which rose by $136 million.

The increase in the value of exports to the United States of some 35% was generally distributed among most commodities and chiefly took the form of increase in volume as price rises only accounted for a small part of this total. About $300 million of the increase in the value of exports was concentrated in the forest products group. This rise was featured by a great expansion in lumber exports. The United States market absorbed 85.8% of this group of exports in 1950 compared with 62.4% in the previous year when large amounts of lumber were still being shipped to sterling area buyers. There were also further increases in the volume and value of leading staple exports of wood products like pulp, paper and shingles, veneers and plywoods and in many other wood products. Another sharp increase of some $70 million occurred in the value of non-ferrous metals. The largest part of this rise was due to expansions in the volume of aluminum and lead. But increases also occurred in the value of other metals exported, particularly nickel. Some notable increases also occurred in exports of primary steel and in some types of metal products. But the important group of agricultural machinery generally did not rise above the high levels of the previous year. Another $53 million of the increase in the value of Canadian exports to the United States occurred in meats, cattle, fish and other animal products. The remaining increases were scattered over many commodities but these continued to be generally of a primary or special type rather than exports of secondary manufactures. Agricultural products generally maintained the value of the previous year with a few exceptions, the most notable of which was an increase in the volume of wheat exported.

Other current receipts from the United States were up on the whole. The rise was primarily due to larger receipts on inland freight on the increased volume of exports, higher gold production, and larger dividend receipts from United States companies. These favourable trends were overshadowed

TABLE 5. Canadian Exports to the United States, 1948, 1949 and 1950 (adjusted for balance of payments purposes)

(Millions of dollars)

—	1948	1949	1950
Newsprint paper	340.3	391.3	463.2
Planks and boards	127.9	100.1	249.6
Wood pulp	185.0	141.6	191.0
Fish and fishery products	57.7	61.6	78.2
Nickel	56.3	62.7	76.2
Farm implements and machinery	60.6	70.9	72.3
Cattle (except pure-bred)	61.6	54.7	71.5
Aluminum, primary and semi-fabricated	25.6	21.3	49.2
Asbestos, unmanufactured	32.0	28.2	44.2
Primary iron and steel	16.4	18.6	40.6
Copper, primary and semi-fabricated	17.7	37.3	39.5
Zinc, primary and semi-fabricated	25.8	35.2	38.9
Pulpwood	42.2	30.6	34.0
Whisky	23.2	28.4	33.5
Beef and veal, fresh	26.3	28.3	32.9
Shingles	20.9	16.2	31.6
Lead, primary and semi-fabricated	18.1	21.0	30.7
Fertilizers, chemical	20.5	23.4	28.6
Wheat	6.6	17.0	28.5
Fur skins, undressed	14.9	17.4	19.4
All other commodities	328.4	315.2	392.4
Total	**1,508.0**	**1,521.0**	**2,046.0**

by the great rise in other current payments as the increase in net payments for the group as a whole indicates.

The volume of gold production continued to rise in 1950 and the value in terms of Canadian dollars was also increased by a premium on U.S. dollars which existed throughout 1950, whereas in 1949 this was only a factor affecting the value in the period from the middle of September on.

The rise in total receipts on freight and shipping account with the United States was substantial. These rose by $31 million to $157 million. Most of the increase was in the earnings of Canadian railways carrying exports across the border; these earnings increased by almost one-third. There was also a very large increase in the earnings of Canadian ships carrying exports to the United States, but this was partly offset by reduced revenues of of Canadian shipping companies from traffic from third countries to the United States.

Declines, however, occurred in receipts from United States tourists which were slightly less in 1950 than in the previous year. While the number of motorists coming to Canada from the United States increased to a new peak level, their average expenditures were less as there was a tendency for this group of tourists to curtail their length of visit. There were also some declines in the volume and expenditures of other groups of tourists entering by rail, boat, and bus.

The rise in current payments, particularly to the United States, was in part a reflection of sustained high levels of Canadian prosperity and development and partly influenced by administrative changes and some external factors. The continued high levels of Canadian business activity and consumption were indirectly responsible for heavy demands which became stronger after a slight decline in imports in the latter part of 1949. These demands appear to have been augmented in the last half of 1950, particularly by the general desire to get commodities while they were available. The volume of imports from the United States was up sharply in the closing months of the year. As the volume in some earlier months was often less and in many others no higher than the previous year, there does not appear to have been a very great change in the overall volume of imports from the United States, although the trend in some commodities was more distinct. An example of this is coal, stocks of which had been drawn in the previous year when shipments were interrupted by strikes. Most demands were heavier in 1950 than in the second half of 1949 when some reduction occurred in imports of many leading groups of commodities, particularly textiles and machinery and other metal products. While this tendency for increases to occur appeared in the first half of 1950, each main group of imports in the second half of the year was higher in value and the value of imports in the last quarter of 1950 was much higher than in earlier periods.

Higher Canadian dollar costs of imports from the United States represent a large part of the increased value of imports. The devaluation of the Canadian dollar in September 1949 made for higher Canadian dollar prices of imports from the United States and this trend was accentuated by the rising levels of prices in the United States during 1950. These rose sharply in the latter half of the year, particularly in the case of raw materials and other primary products, a general group of changes which later were reflected in the prices of manufactured goods as well.

Conspicuous increases also occurred in the level of other current payments to the United States for non-commodity items. The largest of these was the rise in income payments which reached a new peak of $410 million, $85 million higher than the previous peak of 1949. Almost all of this increase was in dividend payments. These rose to $321 million

TABLE 6. Factors in Canada's Current Account Deficit with the United States

(Millions of Canadian dollars)

—	1947	1948	1949	1950[1]	Net Change 1950
Merchandise Trade:					
Imports from U.S.A. (adjusted)	1,951	1,797	1,899	2,093	-194
Exports to U.S.A. (adjusted)	1,061	1,508	1,521	2,046	+525
Net imports	-890	-289	-378	- 47	+331
Non-monetary gold	+ 99	+119	+139	+163	+ 24
Tourist expenditures	+ 89	+154	+104	+ 70	- 34
Interest and dividends	-239	-230	-285	-354	- 69
Freight and shipping	-117	- 82	- 67	- 83	- 16
All other current transactions	- 77	- 65	-102	-143	- 41
Total Current Deficit	**-1,135**	**-393**	**-589**	**-394**	**+195**

1. Subject to revision.

compared with $242 million in 1949, or about 33% higher. Some of this rise reflects the higher levels of earnings in the previous year which might now be paid out by Canadian subsidiaries to parent companies in the United States and some is due to a relaxation late in the year of exchange controls over the withdrawal of profits earned in 1950. There were also increases in dividends paid by public companies reflecting generally higher earnings. Interest paid to residents of the United States on Canadian bonds and debentures of $89 million is higher than in 1949. The effects on these payments of larger holdings of Canadian bonds in the United States and the premium on U.S. exchange throughout the year were greater than reductions in interest payments arising from retirements and refinancing at lower rates. The increase in the balance of payments to the United States on income account was less than the rise in total payments of interest and dividends because of the increased receipts of both interest and dividends from Canadian holdings of United States securities.

Another substantial rise in Canadian expenditures in the United States was the amount spent on travel, which rose from $164 million to $190 million. Throughout the year there was a general upward movement in the volume of Canadian travel to the United States. In the last quarter of the year there were further increases following the abandonment of the specific travel ration for pleasure travel which had been in effect since November 1947 and the general provision of funds in reasonable amounts to cover travel expenditures. The largest part of this upward movement in travel was by Canadian motorists, although travel to the United States by other means increased also with the exception of boat traffic. Purchases of United States merchandise by Canadian travellers were again a significant part of the expenditures. The total of Canadian expenditures in the United States on travel was at a new peak in 1950 and represented an exceptionally high percent, 73%, of total Canadian receipts from the expenditures of American tourists in Canada; the level of the latter dropped off slightly from the previous year. Consequently the balance of receipts from the United States from travel was reduced sharply to $70 million from $104 million in the previous year and $154 million in 1948 when Canadian expenditures in the United States were only $113 million.

Larger freight payments to the United States also occurred in 1950. A large part of this increase was due to the heavier coal imports, a movement which had been interrupted in the previous year by strikes. Inland freight on coal is large and has a relatively important effect on total payments. Other factors increasing payments for transportation were the higher Canadian dollar costs resulting from the premium on U.S. exchange as well as a small increase in freight rates which occurred late in 1949, and the larger volume of imports. Payments on shipping account were also heavier in 1950 mostly due to larger payments to the United States for tankers carrying petroleum to Canada. The rate of increase in total payments to the United States on freight and shipping account was more rapid than the rise in receipts, even though the gain in the latter was substantial due to the record volume of exports to that country. The balance of payments to the United States on freight and shipping account rose appreciably to $83 million as a result of this large gain in total payments.

Capital Transactions with the United States

The unprecedented size and general character of capital inflows from the United States to Canada in 1950 have already been described above in the section on capital movements. Most of the capital movements which featured Canada's accounts in 1950 were those arising from the predominant movements of capital from the United States to Canada. The effects of these movements upon the balance of international indebtedness between Canada and the United States have been varied and pronounced. While many of the inflows were for the acquisition of investments in business and other properties and investments in Canadian securities, other inflows leading to increases in Canadian liabilities to the United States were of a less permanent character. No clear-cut division of liabilities between long and short term kinds is apparent, however, as motivating factors behind the investments have been mixed. Many forms of liabilities which are usually short term increased and many of the new holdings of securities may also not have been of a permanent character. Other smaller parts of the inflows were from liquidations of Canadian holdings of United States securities and other assets in the United States. While the net inflow of capital from the United States amounted to some $951 million, the largest part of this was accompanied by a rise in Canada's official reserves of gold and United States dollars of $625 million U.S., a change which had a Canadian dollar value of $695 million. Even when this rise in short term assets is taken into account along with all other types of international claim between Canada and the United States there was still a substantial increase in the balance of Canadian indebtedness to the United States during 1950.

TABLE 7. Capital Transactions Between Canada and the United States[1], 1950

(Millions of Canadian Dollars)

Transactions in Canadian debtor securities	
Net sales of outstanding issues	+363
New issues	+219
Retirements	-263
Transactions in foreign debtor securities	
Net sales of outstanding issues	+ 65
Retirements	+ 7
Net direct investment in Canada[2]	+167
Net liquidation of direct investments abroad of Canadians[2]	+ 41
Increase in Canadian dollar balances owned in the United States	+ 91
Use of 1949 refunding loan proceeds set aside for retirements in 1950	+ 18[3]
Other net private capital inflows including errors and omissions	+243
	+951

1. Exclusive of change in official liquid reserves but inclusive of some capital transactions on account of other countries.
2. Exclusive of undistributed profits.
3. Both the refunding loan and the related retirements have been converted at the rate of exchange in effect at the time of the refunding, viz, $1.00 U.S. - $1.00 Canadian.

Transactions with the Sterling Area

The virtual disappearance of disequilibrium in Canada's current account with the sterling area was one of the major changes which occurred in 1950. The current account credit balance dropped to $7 million from a credit balance of $574 million in 1949 and a record credit balance in the postwar period of $874 million in 1947. The largest part of this decline in current credits was in the balance with the United Kingdom which dropped to $33 million from $439 million in 1949, although the proportionate swing in the balance with the rest of the sterling area from a current surplus of $135 million to a current deficit of $26 million was even greater. The largest part of the change with the sterling area was in the contraction in exports and other current receipts which together dropped some $404 million, of which $294 million occurred in expenditures by the United Kingdom.

The largest part of the decline in the current account with the United Kingdom was in British expenditures on Canadian exports which dropped $232 million. Almost half of this decline was in agricultural products with the biggest drop being in exports of wheat. Another part occurred in forest products, exports of which declined by $44 million. Reduced shipments of lumber and of newsprint made up a large part of this, although declines were general in other groups of wood products as well. A large part of the decline of $19 million in exports of animal products was due to the elimination of exports of eggs in the shell with the termination of British contracts. Another group of raw materials which declined substantially was exports of non-ferrous metals which declined $30 million. Reductions appeared in the value of most metals shipped to the United Kingdom and it was this decline in shipments overseas which made some of the increases in shipments to the United States possible. Another large decline in exports occurred as a result of the completion in 1949 of deliveries of aircraft purchased earlier.

In addition to this decline in exports a substantial increase in Canadian imports from the United Kingdom made further inroads into the export balance. This rise in imports amounted to about one-third of the value imported in 1949 and the increase in the volume would be even greater as the cost of sterling was less in 1950. About four-fifths of the increase in the volume of imports from the United Kingdom was in metal products and the largest contributor to this latter increase was the impressive rise which occurred in the volume of imports of British automobiles. Other groups of imports did not change so greatly in value, although the volume in some instances may have been heavier. Textiles were the largest group which remained fairly stable in value, although they showed some increases in volume.

Combined with this large change in the merchandise balance was a deterioration in the balance arising from all other current transactions with the United Kingdom. This changed from a current surplus of $38 million in 1949 in this group of transactions to a current deficit of $37 million in 1950. Most of this change was due to a contraction in Canadian receipts on freight and shipping account and from inheritances and immigrants' funds. Receipts from freight and shipping dropped from $89 million to $65 million. This decline was due to the combined effects of reduced inland freight on the lower volume of exports and a decline in revenues of Canadian ships carrying exports to the United Kingdom. During the year a large number of Canadian vessels were transferred to United Kingdom registry for operation by British managers for the account of the Canadian owners. The decline in receipts

TABLE 8. Canadian Exports to the United Kingdom 1948, 1949 and 1950 (adjusted for balance of payments purposes)

(Millions of dollars)

—	1948	1949	1950
Wheat	196.5	280.7	173.7
Wheat flour	61.6	46.7	41.0
Bacon and hams	67.8	23.4	24.0
Cheese	11.1	15.2	15.1
All eggs	37.1	18.2	2.4
Planks and boards	43.9	37.4	20.3
Newsprint	5.3	8.9	1.9
All other forest products	51.4	38.5	18.5
Aluminum, primary and semi-fabricated	39.9	48.7	39.2
Copper, primary and semi-fabricated	34.7	32.3	29.3
Other non-ferrous metals	56.1	66.0	48.3
Aircraft and parts	1.0	18.7	0.3
All other commodities	96.6	66.3	55.0
Total Exports	**703.0**	**701.0**	**469.0**

from inheritances and immigrants' funds amounted to $21 million. In the case of inheritances this was due to the reintroduction of British controls on transfers from estates to Canada. The decline in immigrants' funds was affected particularly by the drop in the volume of British immigration to Canada and the continuation of British exchange controls over transfers of immigrants' funds to Canada. The volume of immigration from the United Kingdom to Canada in 1950 was approximately one-half the volume in the previous year. Some other smaller parts of the decline in receipts originated from a reduction in British travel to Canada and small declines in receipts by Canadians of income from investments in the United Kingdom and from other miscellaneous current sources.

There were also gains in current payments by Canadians to the United Kingdom. One of the more prominent of these was a continued rise in the expenditures of Canadians on travel in that country to $19 million in 1950. The volume grew as transportation facilities were increased. There was also a moderate increase in Canadian payments to British ships carrying imports to Canada, resulting from the rise in the volume of imports from that country. A general increase also occurred in miscellaneous current payments by Canadians for services performed by the United Kingdom. A substantial part of this latter increase arose from a settlement with the United Kingdom for British installations in Newfoundland.

A very great change occurred in Canada's current account with the rest of the sterling area. In a single year the current account surplus of $135 million changed into a current deficit of $26 million. The change from several years earlier when Canada's current surplus with this group of countries was at a postwar peak of $241 million was even greater.

There have been several factors at work bringing about this transition. The most important of these has been the contraction in Canadian exports brought about by the reduced purchases by the sterling area in Canada. The use of import restrictions on purchases in the dollar area by this group of countries which was extended in 1949 was a major factor bringing about this contraction in purchases. The devaluation of sterling currencies in September of the same year also had effects on purchases. Reductions were most substantial in exports of many types of Canadian manufactured goods. The full extent of the declines which had already occurred in 1949 was not revealed by totals of Canadian exports to this group of countries since the latter were swollen by some unusually large purchases which did not recur in the same volume in 1950. Among these were railway equipment sold to the Union of South Africa and to India and wheat to India. But with the decline in deliveries on these unusual orders in 1950 the totals of Canadian trade were sharply reduced. Declines in these groups of commodities accounted for more than half of the drop of some $100 million which was about one-third of Canadian exports to the rest of the sterling area in the previous year. Many reductions in other commodities were also notable. Sharp declines occurred in staples like newsprint, prepared milk and fish. Declines were also evident in most manufactured goods, although before the end of the year purchases of some of these commodities were again being made by some countries in the sterling area and a substantial recovery occurred in shipments of automobiles to some countries, most notably Australia. While a large part of the drop during the year was concen-

trated in exports to markets which had been so exceptionally high in 1949, like South Africa, India and Pakistan, general declines were evident in shipments elsewhere in the Commonwealth as well. Exports to important markets like the West Indies were generally much lower and the same trend appeared in exports to most other Crown colonies. But in contrast the value of shipments to Australia was maintained, while exports to New Zealand declined.

TABLE 9. Canadian Exports to Other Sterling Area, 1948, 1949 and 1950

(Millions of Dollars)

—	1948	1949	1950
Breakdown by commodities:			
Wheat to India	1.6	23.0	5.2
Locomotives to India	5.7	27.1	10.9
Railway cars and coaches to India and Union of South Africa	2.5	20.8	2.8
All other exports	283.2	229.1	182.1
Total	**293.0**	**300.0**	**201.0**
Breakdown by countries:			
Australia	38.3	35.4	35.4
India	33.7	72.6	31.5
Ireland	4.4	9.1	13.3
New Zealand	18.4	14.5	11.0
Pakistan	7.8	18.1	8.7
Union of South Africa	83.2	77.7	42.6
British West Indies	49.0	36.8	26.1
Other countries	58.2	35.8	32.4
Total	**293.0**	**300.0**	**201.0**

But in addition to this exceptional drop in exports there was also an unusually large increase in the value of Canadian imports from the rest of the sterling area. These rose from $187 million in 1949 to $244 million in 1950, or almost one-third. Increases occurred in the value of imports from each principal region. While the cost of sterling to Canadian importers was less in 1950, there were many conspicuous increases in sterling prices of tropical and other primary commodities purchased by Canada. Consequently some of the increased value of imports from the rest of the sterling area is due to higher prices. The extent to which this was the case varies with individual commodities. With some commodities the rise in prices was particularly sharp, such as crude rubber and wool. But at the same time the increases in prices were generally less than the increases in the value of Canadian imports as a significant part of the latter was due to a rise in volume.

Combined with these adverse trends in Canada's commodity trade with the rest of the sterling area there was also a reduction in the balance of receipts from non-merchandise items. The principal decline in net receipts from this group of transactions was in revenues on inland freight and from shipping. The former were reduced directly by the lower volume of exports and the latter suffered from the same factor, combined with a reduction in the number of Canadian shipping services carrying goods to Commonwealth countries. Other current items did not change greatly.

Capital Transactions with the Sterling Area

As might be expected the great alteration in the current account balance with the sterling area was accompanied by changes in capital movements and multilateral settlements with this currency area. One of the principal means of financing the large current surpluses in Canada's accounts with the sterling area in earlier postwar years had been drawings on the 1946 loan to the United Kingdom. These drawings were reduced in 1950 to $50 million which were all in the first half of the year. By the end of this final drawing only $65 million of the total loan of $1,250 million was unspent, the remaining $1,185 million having been drawn. The distribution of drawings by years was as follows:

	Millions of dollars
1946	540
1947	423
1948	52
1949	120
1950	50
Total	**1,185**

Repayments by the United Kingdom on the wartime loan of $700 million extended in 1942 amounted to some $42 million in 1950. These compare with $5 million in 1949 and $64 million in 1948. These repayments are related to certain private capital movements between Canada and the United Kingdom, principally liquidations in earlier periods of United Kingdom holdings of Canadian securities either through sale or redemption. But offsetting part of these outward movements of capital from Canada are inflows of a direct investment character in connection with the development or expansion of businesses in Canada owned in the United Kingdom and British expenditures on certain aircraft made in Canada in earlier years. The amount of the 1942 loan outstanding at the end of 1950 was reduced to approximately $256.5 million. In addition, during the year there was a repayment of $9.1 million by the United Kingdom on the wartime loan from the Government of Newfoundland.

The principal groups of private capital movements were the repurchases by Canadians of Canadian securities from the United Kingdom which amounted to some $35 million, more than double the repurchases of the previous year. Other reductions in British holdings of Canadian securities resulted from the redemptions of issues held there which amounted to $18 million. Among other long term capital movements an important group was made up of the inflows of $18 million for direct investment by British companies in business enterprises in Canada. While a number of enterprises were being established or expanded the amount of capital involved in this inflow was relatively small in comparison with the heavy volume of inflow from the United States for direct investments. The business units being financed by United Kingdom firms were for the most part made up of relatively small manufacturing concerns or commercial branches in comparison with some large-scale resource and industrial development being undertaken by United States companies in Canada. There were various other capital movements between Canada and the United Kingdom of a long term character but these were not substantial.

There was, however, a significant outflow of capital from Canada mainly connected with changing positions of short term commercial indebtedness. The principal forms taken by this type of change in position were either accelerated payments for imports by Canada from sterling area countries or retarded receipts for exports. Other capital movements were also substantial but to some extent offsetting. The principal of these was an inflow arising from a large rise in the Canadian dollar balances owned in the United Kingdom. In the opposite direction was an increase in Canadian holdings of sterling balances. Multilateral settlements between Canada and the sterling area were for the most part offsetting during

TABLE 10. Summary of Current and Capital Transactions Between Canada and the Sterling Area, 1938 and 1946-1950

(Millions of dollars)

—	1938[1]	1946	1947	1948	1949	1950[3]
Current Account:						
Gross Current Receipts	508	1,149	1,382	1,260	1,230	826
Gross Current Payments	337	480	508	645	656	819
Current Account Balance	+171	+669	+874	+615	+574	+ 7
Current surplus with United Kingdom	+127	+500	+633	+486	+439	+33
Current surplus with Other Sterling Area[1]	+ 44	+169	+241	+129	+135	-26
Mutual Aid	—	- 5	—	—	—	—
Net Balance on Current Account (Excluding Mutual Aid)	+171	+664	+874	+615	+574	+ 7
Capital Account:						
Postwar Loan to United Kingdom	—	-540	-423	- 52	-120	-50
Repayments by U.K. on War Loans	—	+ 89	+104	+ 64	+ 5	+51
British Financial Settlement and Interim Advances (net)	—	+ 38	—	—	—	—
Repatriations of Securities	- 33	-131	- 50	- 18	- 26	-53
Other Capital Movements	- 26	+ 29	- 7	- 20	+ 74	+56[4]
Net Capital Movement	- 59	-515	-376	- 26	- 72	+ 4
Sales of Gold or Convertible Exchange	-112[2]	-150	-505	-597	-491	-11
Balancing Item	—	+ 1	+ 7	+ 8	- 11	—
	-171	-664	-874	-615	-574	- 7

1. Includes only Commonwealth countries in 1938.
2. In 1938 this item indicates the net amount of exchange available for multilateral settlements.
3. Subject to revision.
4. Including balancing item.

1950 when the year is taken as a whole and consequently did not lead to any substantial net amount comparable to earlier years. In 1949, for instance, transfers of convertible exchange on sterling area account and some other types of multilateral settlement amounted to $491 million. In several years these settlements were even greater when the Canadian current account surplus with the sterling area was at its highest postwar levels. The corresponding net figure in 1950 was only $11 million.

Transactions with Other Countries

Canada's current surplus with other overseas countries than the countries of the sterling area dropped sharply in 1950 to $71 million, a little more than one-third of the current surplus of $202 million in the previous year. This change was greatest in trade with European countries, the surplus with the Continental E.R.P. countries, including their dependencies, dropping from $187 million in 1949 to $112 million in 1950. With all other countries in this group there was a change from a small surplus of $15 million in 1949 to a deficit of $41 million in 1950. As in the case of trade with the sterling area trends in both exports and imports contributed to these changes. Neither the decline in exports nor the rise in imports was as sharp as in the case of trade with the sterling area. The drop in exports was $44 million, while the rise in imports was $83 million or about 9% and 27% respectively. A large part of the drop in exports was in grain and other agricultural products. Although some raw materials like wood pulp also declined, the value of other raw materials and primary products like non-ferrous metals was better maintained. Exports to Latin America were higher in 1950 in contrast to this trend with Europe. But declines also occurred in exports to all other foreign countries. The trends with individual countries were quite irregular, however. There were conspicuous declines in exports to some destinations like China, Iran and Turkey, which were partly offset by a rise in shipments to other markets, like Japan, while at the same time exports to other countries were comparatively well maintained.

TABLE 11. Domestic Exports to Other Countries (including E.R.P. group) 1948, 1949 and 1950, adjusted for balance of payments purposes

(Millions of dollars)

—	1948	1949	1950
"E.R.P." group[1]	296.0	246.0	200.0
Latin America	124.0	125.0	142.0
China	29.1	13.8	2.1
Iran	0.7	12.0	1.0
Japan	8.0	5.9	20.5
Turkey	2.0	14.1	3.7
All other	66.2	50.2	53.7
Total	**526.0**	**467.0**	**423.0**

1. Including Dependent Overseas Territories. Exclusive of countries of the sterling area.

An increase in imports appeared in trade with Europe and in trade with several countries outside Europe where Canadian imports rose conspicuously. These included Arabia and the Netherlands Antilles, imports from both of which sources rose sharply with the diversion to these sources of purchases of petroleum and products. Another much more prominent source of imports in 1950 was Japan, where there was a widespread increase in imports of many types of manufactured goods. A moderate rise occurred in imports from Latin America, although the total imported from the principal source of Canadian imports in that region, Venezuela, dropped due to some decline in petroleum imports; the volume of some other purchases from Latin America was no higher in 1950 as price increases were responsible for a large part of the higher value of purchases. Non-merchandise transactions with all other foreign countries yielded a current surplus of about the same size in 1950 as in the previous year.

Changes in Composition of Canadian Exports and Imports

The composition of Canadian exports changed significantly in 1950. Agricultural and vegetable exports, which in 1949 were 25.8% of all exports, fell to 20.4% in 1950. Wood, wood products and paper rose from 29.2% to 35.7%, while iron and its products fell from 9.8% to 8.1%. While one of the basic changes in exports in 1950 was a shift from exports to overseas countries to the United States, it is important to note that the increase in exports to the United States market did not necessarily offset the specific declines in commodities exported to the rest of the world. Total exports of agricultural and vegetable products fell by $136.1 million in 1950; exports of these products to the United States rose by $6.3 million, while exports to the rest of the world fell by $142.4 million. Total exports of wood and wood

products rose by $237.6 million; exports of these products to the United States rose by $306.6 million in 1950, while exports to the rest of the world fell by $69 million. The same pattern appears in exports of non-ferrous metals and products. In the case of iron and products, total exports fell by $41.8 million; exports to the United States rose by $27.7 million, while exports to the rest of the world fell by $69.5 million. In some cases, as in the case of wheat, the total supply available for domestic and foreign consumption was smaller in 1950 than in 1949. In other cases, the domestic market took more of the available supply than in 1949, leaving less available for export.

About three-quarters of the rise in exports of wood and wood products in 1950 represented increases in volume of exports. In the case of non-ferrous metals, the increase of $70.1 million in exports to the United States was virtually all due to price increases. While the prices of exports of agricultural and vegetable products and animals and animal products combined rose by about 3%, volume fell by slightly over 10%. This reflects mainly the decrease in wheat exports. Non-metallic minerals and products, and fibres and textiles showed price increases of about 8%, while iron and steel and chemicals and fertilizers showed very little change in average prices. There were substantial increases in the volume of exports of chemicals and fertilizers and non-metallic minerals and products, and a substantial drop in the volume of exports of iron and steel and their products.

It is difficult to analyze closely the stage of manufacture of Canada's exports without a most intensive study. It is worth noting, however, that foodstuffs and raw materials probably form a larger proportion of Canadian exports than in 1949. Exports of wheat, other grains, seeds, and eggs fell in 1950; but exports of cattle, fish, planks and boards, unmanufactured wood, wood pulp, newsprint, aluminum, and nickel all rose. On the other hand, highly manufactured items seem to have formed a smaller proportion of total exports than in 1949. There were sharp decreases in exports of locomotives and parts, railway cars and parts, aircraft and parts, ships and vessels, and miscellaneous manufactured commodities. There were also decreases in exports of rolling mill products although exports of pigs, ingots blooms and billets rose.

The increase in the value of imports in 1950 over 1949 was general, but the largest increases were in agricultural and vegetable products (+$107.1 million), iron and its products (+$88.6 million) and non-metallic minerals and their products (+$76.4 million). Imports from the United States represented about $34 million of the increase in agricultural and vegetable products; about $60 million of the rest of the increase of $107.1 million in this group represented imports from countries other than the United Kingdom. Imports of iron and its products from the United Kingdom made up $67 million of the increase of $88.6 million in this group of imports. In the non-metallic minerals and products groups, the United States supplied $47.3 million of the increase of $76.4 million, with countries other than the United Kingdom supplying almost all of the remaining increase.

The largest absolute gains in the agricultural and vegetable products group were in fruits, grains and products, sugar, coffee, and rubber and products. Cotton and wool imports rose substantially, partly reflecting increased prices. The large rise in imports of iron and products mostly represents imports of automobiles and parts from the United Kingdom. In the non-metallic minerals group the large increases were in coal, petroleum, and petroleum products.

The rise in imports of agricultural and vegetable products and animal and animal products was due in about equal degrees to price increases and volume increases. The rise in fibres, textiles and products, representing increased imports from the United States and countries other than the United Kingdom, was almost all due to price increases if the group as a whole is taken. In the iron and products group as a whole the volume of imports rose about 3% while prices rose about 7%. The volume of non-metallic minerals and products imported rose about 12% over 1949, while prices of this group as a whole rose only slightly. In the other groups of imports, both price and volume increases accounted for the increased values.

The net barter terms of trade, measuring the ratio of export to import prices, continued to decline in 1950. When measured on a 1948 base, the terms of trade have deteriorated irregularly in every year since 1946. Since 1948, average import prices have risen 10.7% while average export prices have risen 8.5%. Calculated on a half-yearly basis, the terms of trade were 99.7 and 101.7 in 1948, 101.5 and 99.4 in 1949, and 97.0 and 98.9 in 1950.

TABLE 12. Foreign Trade Price Indexes and the Net Barter Terms of Trade

	Prices of Domestic Exports	Prices of Imports	Net Barter Terms of Trade
	(1948=100)		
1946	79.9	76.4	104.6
1947	91.6	87.8	104.3
1948	100.0	100.0	100.0
1949	103.1	103.2	99.9
1950	108.5	110.7	98.0

The great changes in the direction as well as value of trade may be made clearer by comparison with previous periods. In 1929-31 between 42% to 45% of Canada's exports went to the United States, between 19% to 23% to the United Kingdom, and about 35% to other countries. In 1936 and 1937, however, the United States took only 39% of our exports, countries other than the United Kingdom took 25%, and the United Kingdom had increased its share to 36%. This was generally true after the first few years of the 'thirties. In the late 'forties this distribution had changed once more. The United States took 50% of Canadian exports in 1948 and 1949, while the United Kingdom took 23% and other countries about 27%. The pattern in 1950, with the United States taking 65% of our exports and all other countries only 35%, bears comparison with no other period in the 'twenties and 'thirties. The increase of 35% in exports to the United States from 1949 to 1950 is comparable only to the decline in our exports to the United States in 1930-31 and 1937-38.

A great many specific factors determine the level and composition of imports, such as trade restrictions of various kinds, supply conditions abroad, the behaviour of particular components of internal economic activity, and so on. It is dangerous to put too much emphasis on comparisons of aggregates, but a significant fact appears if imports are shown as a percentage of gross national expenditure. Imports in 1928 and 1929 were about 20% of gross national expenditure. By 1931 this proportion had fallen to 13%, and by 1936 to 1938 was still at that proportion. In the period 1948 to 1950, with relatively great economic activity as in the late 'twenties, imports were 17% of gross national expenditure. One reason for this may be that investment activity which generates a strong import demand, was a much smaller proportion of gross national expenditure in the 'thirties than in the late 'twenties and the last few years.

TABLE 13. Summary of Current and Capital Transactions Between Canada and All Countries, 1945-1950

(Millions of dollars)

—	1945	1946	1947	1948	1949	1950[1]
Current Account:						
Gross Current Receipts	4,456	3,365	3,746	4,147	4,077	4,229
Gross Current Payments	2,910	2,905	3,661	3,676	3,890	4,545
Current Account Balance	+1,546	+ 460	+ 85	+ 471	+ 187	- 316
Current Deficit with U.S.A.	+ 36	- 607	- 1,135	- 393	- 589	- 394
Current Surplus with Overseas Countries	+1,510	+1,067	+1,220	+ 864	+ 776	+ 78
Official Contributions to Overseas Countries	- 858	- 97	- 38	- 19	—	—
Net Balance on Current Account (Excluding Official Contributions)	+ 688	+ 363	+ 47	+ 452	+ 187	- 316
Capital Account:						
Net Post War Loans by Canada[2]	- 105	- 750	- 563	- 126	- 107	- 28
Repayments by U.K. on War Loans	+ 64	+ 89	+ 104	+ 64	+ 5	+ 51
Financial Settlement with U.K.	—	+ 150	—	—	—	—
Interim Advances to British Countries	- 209	- 112	—	—	—	—
Net Retirements of Canadian Securities Held Abroad	- 120	- 315	- 275	+ 37	- 42	- 64
All other Capital Movements (net)[3]	+ 349	+ 324	- 56	+ 69	+ 91	+1,052
Net Change in Official Liquid Reserves:						
Decrease (+)		251	743			
Increase (-)	667			496	134	695
	- 688	- 363	- 47	- 452	- 187	+ 316

1. Subject to revision.
2. Excluding interim advances to British Countries.
3. Including balancing items of errors and omissions.

TABLE 14. Summary of Revised Estimates of Canada's International Accounts, 1949

(Millions of dollars)

—	All Countries	United Kingdom and Sterling Area	Other "E.R.P." Countries	Other Overseas Countries	United States[1]
Current Account:					
Current Account Balance	+187	+574	+187	+15	-589
Capital Account:					
Postwar loan to U.K. and Export Credits:					
Total drawings on loans	-120	-120	—	—	—
Principal repayments	+ 13	—	+ 11	+ 2	—
Net Loans	-107	-120	+ 11	+ 2	—
Net retirement of Canadian securities	- 42	- 10	- 1	—	- 31
Net trade in outstanding securities	+ 24	- 16	- 2	+ 1	+ 41
Direct investments in Canada	+ 88	+ 13	- 3	—	+ 78
Other capital movements	- 5	+ 61	- 18	- 9	- 39
Net receipts of convertible exchange from overseas countries	—	-491	-174	- 9	+674
Balancing item[2]	- 11	- 11	—	—	—
Balance from all above transactions	+134	—	—	—	+134
Increase in official liquid reserves	+134	—	—	—	+134

1. Including some capital transactions on account of "other overseas countries".
2. The balancing item reflects errors and omissions.

Note. A minus sign (-) designates payments, outflows of capital from Canada, or purchases of convertible exchange.

TABLE 15. Summary of Preliminary Estimates of Canada's International Accounts, 1950

(Millions of dollars)

—	All Countries	United Kingdom and Sterling Area	Other "E.R.P." Countries	Other Overseas Countries	United States[1]
Current Account:					
Current Account Balance	-316	+ 7	+112	-41	-394
Capital Account:					
Postwar loan to U.K. and Export Credits:					
Total drawings on loans	- 50	-50	—	—	—
Principal repayments	+ 22	—	+ 16	+ 6	—
Net Loans	- 28	-50	+ 16	+ 6	—
Repayments of war loans	+ 51	+51	—	—	—
Net retirements of Canadian securities	- 64	-18	- 2	—	- 44
Net trade in outstanding securities.					
Canadian securities	+329	-35	- 4	+ 5	+363
Foreign securities	+ 66	—	—	+ 1	+ 65
Direct investments in Canada	+190	+18	+ 3	+ 2	+167
Other capital movements[2]	+467	+38	+ 19	+10	+400
Net receipts of convertible exchange from overseas countries	—	-11	-144	+17	+138
Balance from all above transactions	+695	—	—	—	+695
Increase in official liquid reserves	+695	—	—	—	+695

1. Including some capital transactions on account of "other overseas countries".
2. Including errors and omissions.

Note. A minus sign (-) designates payments, outflows of capital from Canada, or purchases of convertible exchange.

TABLE 16. Current Account of the Canadian Balance of International Payments Revised Statement for 1949 and Preliminary Estimates for 1950

(Millions of Canadian dollars)

	All Countries		United Kingdom		Other Sterling Area		United States		Other "E.R.P." Countries		All Other Countries	
	1949	1950	1949	1950	1949	1950	1949	1950	1949	1950	1949	1950
A. Current Receipts:												
Merchandise exports (adjusted)	2,989	3,139	701	469	300	201	1,521	2,046	246	200	221	223
Gold available for export	139	163	—	—	—	—	139	163	—	—	—	—
Tourist expenditures	286	275	11	7	2	3	268	260	4	4	1	1
Interest and dividends	83	93	9	5	4	5	40	56	14	14	16	13
Freight and shipping	303	287	89	65	30	17	126	157	28	24	30	24
Inheritances and immigrants' funds	66	56	34	13	1	1	20	30	8	10	3	2
All other current receipts	211	216	46	37	3	3	150	156	4	12	8	8
Total Current Receipts	**4,077**	**4,229**	**890**	**596**	**340**	**230**	**2,264**	**2,868**	**304**	**264**	**279**	**271**
B. Current Payments:												
Merchandise imports (adjusted)	2,696	3,129	300	399	187	244	1,899	2,093	79	113	231	280
Tourist expenditures	192	222	17	19	4	4	164	190	6	8	1	1
Interest and dividends	390	474	55	55	1	—	325	410	7	7	2	2
Freight and shipping	253	301	32	36	5	3	193	240	16	14	7	8
Inheritances and emigrants' funds	53	63	10	10	2	1	39	49	1	2	1	1
All other current payments	306	356	37	44	6	4	233	280	8	8	22	20
Total Current Payments	**3,890**	**4,545**	**451**	**563**	**205**	**256**	**2,853**	**3,262**	**117**	**152**	**264**	**312**
C. Current Account Balance	+187	-316	+439	+33	+135	-26	-589	-394	+187	+112	+15	-41

Note. Exports in 1950 are exclusive of contributions to North Atlantic Treaty nations of military equipment from Canadian stocks.

TABLE 17. Current Account Between Canada and All Countries, 1926-1950

(Millions of dollars)

Year	Current Receipts	Current Expenditures	Net Balance On Current Account	Mutual Aid and Other Official Contributions	Net Balance on Current Account Excluding Official Contributions
1926	1,665	1,538	+ 127	—	+127
1927	1,633	1,643	- 10	—	- 10
1928	1,788	1,820	- 32	—	- 32
1929	1,646	1,957	- 311	—	-311
1930	1,297	1,634	- 337	—	-337
1931	972	1,146	- 174	—	-174
1932	808	904	- 96	—	- 96
1933	829	831	- 2	—	- 2
1934	1,020	952	+ 68	—	+ 68
1935	1,145	1,020	+ 125	—	+125
1936	1,430	1,186	+ 244	—	+244
1937	1,593	1,413	+ 180	—	+180
1938	1,361	1,261	+ 100	—	+100
1939	1,457	1,331	+ 126	—	+126
1940	1,776	1,627	+ 149	—	+149
1941	2,458	1,967	+ 491	—	+491
1942	3,376	2,275	+1,101	1,002	+ 99
1943	4,064	2,858	+1,206	518	+688
1944	4,557	3,539	+1,018	960	+ 58
1945	4,456	2,910	+1,546	858	+688
1946	3,365	2,905	+ 460	97	+363
1947	3,746	3,661	+ 85	38	+ 47
1948	4,147	3,676	+ 471	19	+452
1949	4,077	3,890	+ 187	—	+187
1950	4,229	4,545	- 316	—	-316

TABLE 18. Geographical Distribution of the Balance on Current Account, 1926-1949

(Millions of dollars)

Year	All Countries	United Kingdom[1]	Other Overseas Countries[2]	United States[3]
1926	+ 127	+ 58	+300	- 231
1927	- 10	- 19	+257	- 248
1928	- 32	- 21	+338	- 349
1929	- 311	- 99	+225	- 437
1930	- 337	- 106	+113	- 344
1931	- 174	- 54	+ 85	- 205
1932	- 96	- 14	+ 86	- 168
1933	- 2	+ 26	+ 85	- 113
1934	+ 68	+ 46	+102	- 80
1935	+ 125	+ 62	+ 92	- 29
1936	+ 244	+ 122	+123	- 1
1937	+ 180	+ 135	+122	- 77
1938	+ 100	+ 127	+122	- 149
1939	+ 126	+ 137	+105	- 116
1940	+ 149	+ 343	+ 98	- 292
1941	+ 491	+ 734	+ 75	- 318
1942	+1,101	+1,223	+ 58	- 180
1943	+1,206	+1,149	+ 76	- 19
1944	+1,018	+ 746	+241	+ 31
1945	+1,546	+ 747	+763	+ 36
1946	+ 460	+ 500	+567	- 607
1947	+ 85	+ 633	+587	-1,135
1948	+ 471	+ 486	+378	- 393
1949	+ 187	+ 439	+337	- 589
1950	- 316	+ 33	+ 45	- 394

1. Excluding wheat exports diverted to other overseas countries, and exports of gold.
2. Including estimated wheat sold in European Countries.
3. Including all net exports of non-monetary gold.

TABLE 19. Statistics on Canada's International Investment Position

A. Summary — Non-Resident Investments in Canada, 1926-1949

(Millions of Canadian dollars)

—	1926	1930	1939	1945	1946	1947	1948	1949[1]
Held in United Kingdom	2,636.3	2,766.3	2,475.9	1,750.0	1,668.0	1,631.0	1,593.0	1,694.0
Held in United States	3,196.3	4,659.5	4,151.4	4,990.0	5,157.0	5,200.0	5,588.0	5,932.0
Held in Other Countries	170.0	188.0	286.0	352.0	353.0	343.0	332.0	340.0
Total—Non-Resident Investments in Canada	**6,002.6**	**7,613.8**	**6,913.3**	**7,092.0**	**7,178.0**	**7,174.0**	**7,513.0**	**7,966.0**

B. Summary — Value of United States Direct Investments in Canada in Companies Controlled in the United States, by Forms of Investment, 1926-1949 (Included in Summary A)

(Millions of Canadian dollars)

—	1926	1930	1939	1945	1946	1947	1948	1949
Capital Stocks	1,000.0	1,329.4	1,289.2	1,613.0	1,691.0	1,804.0	2,061.0	2,212.0
Bonds	187.6	336.3	305.8	292.0	320.0	306.0	321.0	339.0
Other Investments	214.9	327.0	285.9	399.0	417.0	438.0	447.0	572.0
Total	**1,402.5**	**1,992.7**	**1,880.9**	**2,304.0**	**2,428.0**	**2,548.0**	**2,829.0**	**3,123.0**

C. Summary — Canadian Assets Abroad, 1930-1949

(Excluding Investments of Insurance Companies)

(Millions of Canadian dollars)

—	1930	1939	1945	1946	1947	1948	1949
Direct Investments Outside of Canada	443	671	720	772	822	788	893
Portfolio Holdings of Foreign Securities	842	719	621	551	579	605	638
Government Credits	31	31	707	1,362	1,816	1,878	2,000
Net External Assets of Canadian Banks	180	2	2	2	2	2	2
Official Balances Abroad and Gold	2	455	1,667	1,251	511	1,006	1,232
Total	**1,496**	**1,876**	**3,715**	**3,936**	**3,728**	**4,277**	**4,763**

1. Including Newfoundland and subject to revision.
2. Not available.

Note. A more detailed analysis of British and Foreign Investments in Canada and Canadian Investments Abroad has been published in Canada's International Investment Position Selected Years 1926 to 1949.

GOVERNMENT OF CANADA

THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1951

AND

FOREIGN CAPITAL INVESTED IN CANADA

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THE CANADIAN BALANCE

OF

INTERNATIONAL PAYMENTS, 1951

AND

FOREIGN CAPITAL INVESTED IN CANADA

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THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS, 1951

Canada's current account with all countries shows a deficit of $524 million for the twelve months period of 1951. This excess of imports of goods and services followed a current deficit in 1950 of $329 million.

Although the current deficit in 1951 increased by more than one half over 1950, this was due to a large deficit in the first half of the year. In the second half of the year there was a small current surplus. Recent current deficits have therefore been largely concentrated in a comparatively short period. There has been a current surplus in the post war period as a whole, as surpluses in the years from 1946 to 1949 have been greater than the deficits in 1950 and 1951. There were also current surpluses consistently each year during the recent war, and in the previous years from 1934 on.

Large parts of the current account are subject to wide variations within short periods, with the result that the current account balances often change rapidly. The effects of variations are particularly marked when total transactions are so great, and proportionately small changes in these have relatively large effects on the current balance. The deficit in 1951 was less than 10% of gross current credits, which compares with the current deficit in 1930 which amounted to 26% of total current credits in that year of heavy capital inflows in the prewar period.

The enlargement in the deficit in 1951 was due principally to the growth in the volume of imports which led to a large import balance on commodity account. But as shown in statements 1 and 2, there was also a larger deficit from all other current transactions, and in both 1950 and 1951 the largest net contributors to the current deficit were payments of interest and dividends, and miscellaneous current transactions. A substantial increase occurred in the latter in 1951, and a small deficit appeared on travel account in contrast to an appreciable surplus in previous years.

Payments to the United States Government on account of the replacement of equipment and other defence purchases were also a notable element contributing to the deficit shown in the current account. At the same time Canada contributed Mutual Aid to NATO countries of $165 million in 1951 and $57 million in 1950. The latter amounts do not directly affect the size of these current account deficits, which are a measure of the net inflow of capital into Canada in 1950 and 1951.

STATEMENT 1. Summary of Changes in Current Receipts and Payments Between Canada and All Other Countries – 1951

(Millions of dollars)

–	Current Receipts			Change in 1951
	1949	1950	1951	
Commodity exports (adjusted)	2,989	3,139	3,950	+ 811
Mutual Aid to NATO Countries	–	57	165	+ 108
All other current receipts	1,088	1,104	1,226	+ 122
Total current receipts	**4,077**	**4,300**	**5,341**	**+1,041**
	Current Payments			Change in 1951
	1949	1950	1951	
Commodity imports (adjusted)	2,696	3,129	4,103	+ 974
Mutual Aid to NATO Countries	–	57	165	+ 108
All other current payments	1,194	1,443	1,597	+ 154
Total current payments	**3,890**	**4,629**	**5,865**	**+1,236**
Current balance	**+187**	**-329**	**-524**	**-195**

Bilateral Changes

Another salient change during the year was a widening in the disequilibrium with individual countries and areas. The current surplus with overseas countries increased substantially in 1951, but was still less than in 1949 while the current deficit with the United States increased to a size which was only exceeded in the record year of 1947. The current surplus with all overseas countries increased in the year from $74 million to $431 million. Over half of this was due to an improvement in the surplus with the United Kingdom which rose from $28 million to $220 million. The remainder was distributed between O.E.E.C. countries and other foreign countries, the former group rising from $109 million to $220 million and the change with the latter group being $60 million. There was again a small current deficit with the countries of the sterling area other than the United Kingdom, which increased to $29 million. The current surplus which Canada had with overseas countries in 1949 amounted to $776 million. The surplus with United Kingdom in that year was almost twice as large as in 1951 and in the same year there was a surplus with the rest of the sterling area of $135 million. But the surplus with all other overseas countries was slightly less in 1949 than in 1951.

STATEMENT 2. Summary of Changes in the Principal Elements of Canada's Current Account with All Countries — 1951

(Millions of dollars)

—	1949	1950	1951	Change in 1951
Exports (adjusted)	2,989	3,139	3,950	+811
Imports (adjusted)	2,696	3,129	4,103	+974
Commodity balance	+293	+ 10	- 153	- 163
Gold available for export	+139	+163	+150	- 13
Tourist and travel expenditures	+ 94	+ 49	- 9	- 58
Interest and dividends	- 307	- 383	- 332	+ 51
Freight and shipping	+ 50	- 17	- 10	+ 7
Inheritances and migrants' funds	+ 13	—	+ 10	+ 10
Miscellaneous current transactions	- 95	- 151	- 180	- 29
Total Current Transactions	**+187**	**-329**	**-524**	**-195**

One reason for these changes was that during 1951 there was a return in the second half of the year to something closer to the customary pattern of trade in which Canada has large export balances with the United Kingdom and other overseas countries, and throughout most of the year there was again a substantial import balance with the United States. In 1950 this pattern had altered to such an extent that there were only comparatively small amounts of unbalance in Canada's merchandise trade with overseas countries, and with the United States. The unprecedented results in 1950 were chiefly the result of the record proportion of 65.2% of Canadian exports which went to the United States in that year. While there continued to be a high proportion of exports to the United States in the first half of 1951, this percentage dropped in the second half with the rise in exports overseas. Consequently, in the year as a whole, the percentage of Canadian exports going to the United States dropped to 58.9%. But this ratio was still very high in relation to years before 1950, particularly in the period before 1948, when exports first rose to the unprecedented levels of recent years.

The rise in exports overseas led to the rise in export balances with overseas countries. The rise in the import balance with the United States in 1951 was due to the relatively moderate rise in the value of exports to that country at a time when imports by Canada rose sharply. These changes in the direction of merchandise trade were the chief influences leading to a greater unbalance in Canada's current accounts with these countries. Some adverse trends in non-commercial transactions with the United States also added to the current deficit with that country, while larger receipts on freight and shipping account with the United Kingdom and the first instalment of interest on the postwar loan

added to the current account surplus with the United Kingdom. The changes in non-merchandise items are shown in statements 1 and 2 and discussed in the sections on current transactions with the United States, the Sterling Area and Other Overseas Countries which follow.

Trend in Recent Periods

The current deficit in the first half of the year was greater than in the whole of 1951. The deficit in the third quarter dropped from the peak in the second quarter, and was more than offset by a current surplus which followed in the final quarter.

The current deficit first became prominent in 1950, when deficits of a not unnormal size in the first half of the year were followed by a large deficit in the final quarter. This latter deficit was abnormal seasonally, as customarily there is a large export balance in that period. But the latter failed to recur, and there was furthermore a heavy concentration of year-end dividend payments. The recent period of most heavily concentrated deficits, therefore, only extended from the fourth quarter of 1950 to the second quarter of 1951.

While a current deficit in the first half year has not been unusual in recent years, the deficit which developed in that part of 1951 was distinguished by its exceptional size. This resulted chiefly from the rapid expansion in the volume of imports, which were about 24% higher than in the same period of 1950. Contributing to the rise were inventory accumulations on top of other heavy investment demands, higher consumption, and freer supplies abroad. At the same time, some Canadian export shipments in the first half of the year appeared subnormal both in relation to heavy sustained demands and the eventual levels of the last half of the year. Net outlays on international travel were also heavy in the first half of the year.

The deficit from commercial trade disappeared in the third quarter of 1951; there was a surplus from tourist expenditures, although this was less than is usual for that period. But an overall current deficit resulted in the quarter whan payments by the government on account of defence purchases were included.

The current surplus in the final quarter of 1951 resulted from the large export balance, which accompanied the rise in the volume of exports overseas and the failure of imports to rise again to the peak reached in the second quarter. These opposite movements in the volume of trade were combined with a favourable change in the terms of trade. The latter resulted from a decline in import prices in the last six months of the year, and some further increases in export prices in the same period. But dividend payments were again very heavy at the year end, and this reduced the size of the current account surplus in the final quarter.

Underlying Factors Behind Current Deficits

A combination of underlying factors contributed to the deficits in the past two years. Some of these resulted from internal developments while others had external origins. The high level of economic activity in Canada has, of course, been one of the pervasive underlying forces behind the high levels of Canadian spending abroad. Each of the leading elements in national expenditure was higher in value in 1951 than in 1950 with the exception of new residential construction. Investment by business in non-residential construction and machinery and equipment increased particularly sharply and in addition there was a large inventory accumulation. Inventory accumulations in 1951 were particularly large in periods when imports were at their peak and the heavy import demands seem to have been influenced significantly by the demand for inventories. Besides affecting commodity imports the high level of economic activity led to large earnings and dividend payments on foreign capital invested in Canada. But the financing of investment programs of many Canadian subsidiaries of foreign companies led to large reinvestments of undistributed earnings. Current expenditures on services also reached new peaks, most notably in the case of expenditures of Canadian travellers abroad. The general post-Korea rise in prices was another factor influencing the current deficit as import prices rose somewhat more than export prices in the earlier period of 1951 when imports were so heavy. Subsequent declines in import prices occurred after the peaks in volume had been passed. Advance payments on account of defence purchases also added significantly to the current deficit shown in 1951.

While these strong influences were at work increasing Canada's current expenditures abroad, there has been less flexibility in Canadian exports of goods and services. Although a feature of Canadian exports in 1951 was the rise which occurred in shipments overseas in the second half of the year, the volume of shipments overseas was still much less than in 1949 and earlier Important groups of commodities which were formerly exported overseas by Canada have been reduced from earlier levels or have virtually disappeared from exports. At the same time the volume of Canadian exports to the United States as a whole was at least no higher in 1951 than in 1950 although higher than in 1949. The same applies to other important groups of current receipts from the United States, such as gold, where the volume of production declined, and ex-

penditures of United States travellers. The latter did not change much in total value and expenditures in terms of volume of goods and services bought by tourists seem to have declined.

Even when demands are very high the potential level of exports is directly related to available capacity, whereas in the case of Canadian imports Canadian demands in most instances are not large in relation to available supplies abroad. There are distinct limitations to rapid rises in many of the staple commodities as generally all available production of these has been exported for some years. Furthermore at times there have been some temporary factors tending to hold down Canadian exports, particularly in certain periods like the first half of 1951 when the volume seems to have been somewhat less than normal for recent years.

STATEMENT 3. Summary of Changes in Current Balances Between Canada and the Principal Countries and Areas — 1951

(Millions of dollars)

—	1949	1950	1951	Change in 1951
Between Canada and:				
United States	-589	-403	-955	-552
United Kingdom	+439	+ 28	+220	+192
Other sterling area	+135	- 23	- 29	- 6
Other O.E.E.C. countries	+187	+109	+220	+111
All other countries	+ 15	- 40	+ 20	+ 60
Total — All Countries	**+187**	**-329**	**-524**	**-195**

Capital Movements

The year 1951 has been the second year of exceptionally large capital movements of a predominantly inward direction. The nature of these and the motivating forces behind them have been different in the two years. The most characteristic inflows in 1951 were long-term movements connected with the financing of Canadian development. Examples of these are the inflows for direct investment by foreign companies in Canadian branch and subsidiary companies and the sales of new issues of Canadian securities in the United States by Canadian provinces, municipalities and companies. Each of these groups of inflows increased sharply during 1951 and together they account for a major part of the new inflow during the past year. These inflows are of a long-term character and contrast with many of the inflows in 1950 when movements into Canadian dollar forms of assets, resulting from speculative motives by non-residents, were prominent. Another contrast lies in the fact that the decisions to borrow rested with residents of Canada, whereas in 1950 the decisions usually rested with non-residents. The rise in interest rates in Canada and the general credit stringency led Canadian borrowers to place new issues in the United States on a scale which is comparable with early peak years of this kind of borrowing.

Inflows for direct investment in Canadian branches and subsidiaries by foreign concerns have been heavy in the last two years. While this movement has been under way throughout the post-war years it has been accelerated by the large-scale development of petroleum and other mineral resources and this continued on a larger scale in 1951 than in 1950. In the earlier post-war years the development of industrial plants was the major element in the growth of United States direct investments in Canada. The increase in the value of United States direct investments in Canada in the five years between the end of 1945 and the end of 1950 has been approximately $1,138 million. By the end of 1951 the increase in value in the six post-war years was probably close to $1,500 million. The rise in value has been substantial each year but greatest in the years from 1948 on. Inflows of capital in the form of cash have been heaviest in the last three years, but throughout the period reinvested earnings have also been an important source of financing. Cash inflows of capital from the United States have risen to $199 million in 1950 and $259 million in 1951. In the six-year period reinvested earnings (not included in balance of payments statistics) have accounted for well over half of the financing of the increase in value of some $1,500 million.

One of the important fields of investment in this period has been the petroleum industry. In the five years to the end of 1950 the book value of

United States investments in companies in the petroleum industry in Canada has risen from $120 million to some $435 million. This includes investments in refining, marketing and transportation as well as in the exploration and development of western petroleum resources. At the end of 1950 United States ownership amounted to 54% of the whole petroleum industry and Canadian ownership amounted to 44%, or most of the remainder. There is a substantial Canadian equity in companies engaged in refining and marketing as well as in the development of new resources.

More than half of the gain in the past six years of $1,500 million in United States direct investments in Canada has been in manufacturing. In the five years from 1946 to 1950 there was an increase of $748 million in manufacturing, including companies engaged in refining petroleum. In the same period the increase in the field of mining, smelting and petroleum exploration and development was about $200 million but the latter is exclusive of investments in petroleum exploration and development by companies also engaged in refining petroleum.

The other group of capital inflows which developed on an even greater scale was the inflow through sales of new issues of Canadian securities in the United States. Total sales of these of $411 million to all non-residents were approximately double the level in 1950. This total of new issues was largely made up of provincial and municipal bond issues payable in United States dollars. These constituted more than three-fourths of the total. The remainder includes corporation bonds and stocks, some payable in United States dollars and some Canadian dollar issues. The net increase in Canadian bonded debt held abroad was considerably less than this, however, as there continued to be a substantial total of issues retired, although these amounted to less than in most preceding years. When retirements of $184 million are taken into account there were net new issues of some $227 million in 1951 compared with net redemptions in 1950 of $73 million. This borrowing in 1951 through sales of new issues is comparable in size to the total of $419 million of issues sold in 1930, the highest year in the period of heavy borrowing in the interwar years. But net new issues of $290 million after deducting retirements were greater in that year. For a number of years in that period sales of new issues were the principal form of capital inflows as was the case in earlier periods of Canadian development.

The recent sales of new issues have been mostly in connection with expenditures by borrowers on development of various kinds. Only a comparatively small part has been for refinancing purposes. The issues were mostly sold in the months from April on after interest rates had risen in Canada and when the Canadian supply of funds for investment became more restricted.

Although an appreciable increase occurred in Canadian debt payable in United States funds, the total of this held in the United States was still at the end of 1951 about 10% below the holdings at the end of 1930 when they were close to their peak. Holdings have been reduced since then by retirements in most years. These reductions have been greater than any increases which have occurred in United States holdings through transactions in outstanding bonds payable in United States funds. Most of the new United States investments in outstanding Canadian bonds during recent years have been in domestic issues of the Government of Canada These acquisitions were particularly large in 1945, 1946 and 1950.

Statement 4. Proceeds of New Issues of Canadian Securities Sold to Non-Residents 1951

(Canadian dollar equivalent in millions)

1. Bonds and Debentures:	
Payable in U.S. dollars:	
Provincial Governments	262
Municipal Governments	72
Corporations	6
Sub-total	340
Payable in Sterling	3
Payable in Canadian dollars	26
Total — Bonds and Debentures	369
2. Stocks	42
Total New Issues	411

Total interest payments by Canadian debtors to the United States are still much less than in 1931. Payments of interest to the United States of $94 million in 1951 compare with $121 million in 1931 The interest payments for a full year on the total of new issues sold in the United States in 1951 amount to less than $12 million while the interest on United States holdings of issues retired during the year amounted to about $7.6 million. There were also some reductions in interest payments arising out of the liquidations by United States investors of holdings of outstanding Canadian bonds during 1951.

Movements of capital connected with the direct investments of Canadian companies abroad were outwards on balance in 1951, amounting to $26 million. This outward movement contrasts with net capital inflows in 1950 of $36 million when there were substantial inflows from the United States connected with the final liquidations of some investments which had been sold earlier. In both years there were appreciable outflows connected with the establishment and development of direct investments in each of the countries and areas shown in the capital account.

Great variations have occurred in capital inflows connected with transactions in outstanding securi-

ties and in short-term movements. In 1950 the most characteristic type of inflow was the acquisition of domestic bonds of the Government of Canada by investors in the United States. Speculative motives were a strong factor behind this record movement of capital to Canada in this form and were concentrated in the third quarter of 1950. Other exceptionally large capital inflows in that year were also associated with the speculative movement to the ownership of Canadian dollar forms of assets. These movements took a variety of forms including a large increase in Canadian dollar balances of non-residents. In 1951 movements of capital through transactions in outstanding securities were largely offsetting, leaving a net inflow of capital which was small in comparison to 1950 although substantial in relation to many early years.

In 1951 the inflows of capital for the acquisition of outstanding securities went into corporation stocks and certain groups of bonds. Net sales to the United States of stocks and bonds of Canadian companies were substantial and sales of stock to overseas countries other than the United Kingdom also rose sharply in 1951 to a new peak. While there were net sales of some other groups of bonds, particularly provincials, there were large reductions in United States holdings of Government of Canada issues. Net repurchases by Canadians of these issues from the United States amounted to $91 million. Most of these repurchases occurred later in the year as in the earlier months of 1951 there continued to be net sales of dominion issues to the United States.

There were again reductions in Canadian holdings of United States securities in 1951. Net sales by Canadians of these securities amounted to $15 million, about one quarter of the size of corresponding liquidations in the previous year. In both years most of the transactions were in stocks of United States companies. In addition there was a comparatively small amount of issues redeemed.

Short term movements of capital were outwards on balance in 1951 in the account with all countries in contrast to exceptionally large inward movements in 1950. While there continued to be substantial inflows of certain types from the United States these were offset by reductions in Canadian dollar balances owned in the United States and overseas.

Large inflows of short term capital from the United States have been a feature of both 1950 and 1951. But the net inflow in the full year 1951 was much less than in the former year as there were some substantial outflows in parts of 1951. There were for example, outflows in 1951 in the form of substantial reductions in private bank balances in Canada following the unusual rises in these balances which occurred in 1950. In that year the rise in Canadian dollar balances owned in the United States was $91 million while the reduction in these balances in 1951 was $53 million.

The reduction which occurred in other short term inflows from the United States is indicated by the decline shown in the item of statement 8 "Other private net capital movements", which fell from $229 million in 1950 to $76 million in 1951. The predominant inflows in the two years have taken a a variety of forms. A characteristic type has been the increases in accounts payable for imports. To some extent this kind of change accompanies a general rise in the value of trade as there is normally a float of accounts payable which increases when the volume of trade rises. But during 1950 there were increases in these inflows of capital which may be associated with the speculative atmosphere affecting capital movements between Canada and the United States, particularly in the summer of that year. While short-term inflows continued in 1951, these were heaviest in periods when the volume of imports was at a peak and a motivating factor was provided by the credit stringency in Canada. In the year as a whole the net inflow of these types of capital was much less than in 1950 as there were outflows in some periods. While increases in short term payables for imports are an important element in these movements in both years, there were also inflows through short term borrowing of other kinds and inflows connected with reductions in receivables and other forms of Canadian owned assets abroad.

Short term movements between Canada and the United Kingdom include large changes in British balances in Canada. While there was a large rise in these in 1950 there was a decline of comparable size in 1951.

Capital movements on account of the Canadian Government in 1951 were confined to repayments on war and post-war loans by the United Kingdom and other governments. Repayments by the United Kingdom on the 1942 loan amounted to $34 million and at the end of the year the first instalment of principal of $14 million was paid by the United Kingdom on the post-war loan of 1946. Repayments by other governments on export credits extended in earlier post-war years amounted to $20 million. The total of $68 million of these repayments on loans by the Canadian Government in 1951 compared with total repayments of $74 million in 1950 in which year on the other hand there were also final drawings of $50 million on the loan to the United Kingdom.

Non-resident Financing of Canadian Investment

Foreign capital has played an increasing role in Canadian development in the last few years, but that role is still a minor one in relation to the total financing of Canadian investment. The proportion of foreign capital to total capital investment being made is much smaller than was the case in earlier periods of high investment activity.

In expressing this role as a ratio, careful note must be taken of the factors selected and the concepts behind this selection. It should be noted in particular that the statistical categories which measure capital inflows and domestic capital formation are not always directly comparable.

One way to look at this is to measure the proportion of national saving which is contributed on balance by non-residents. This contribution can be defined as the current account deficit plus reinvested earnings of foreign controlled companies. If this is compared with all types of investment in Canada, net of depreciation but including gross government investment, it appears that this ratio was about one-seventh in 1950 and slightly higher in 1951. The net contribution by non-residents and foreign controlled companies to the savings used for all types of investment in Canada was therefore only about one-seventh in 1950 and 1951. But, in contrast, Canada was a net exporter of capital for a long period of years prior to 1950.

Another way to look at this is to measure only foreign participation in Canadian investment. For this purpose only the inflow of capital to Canada for investment purposes is considered, while outflows for retirement of securities or other purposes are neglected. The ratios derived here depend very much on the types of capital inflow selected for consideration and the extent to which these are gross or net. One type of inflow which is not considered here is the purchase of outstanding securities, which does however affect to some degree the conditions of financing in Canada. Also neglected are short-term capital movements, which to some extent finance investment. For this comparison the inflow for long-term investment purposes is defined as total new issues and the increase in value of foreign direct investments in branches and subsidiaries in Canada. This particular comparison indicates that in 1950 and 1951 less than one-fifth of all types of domestic investment, net of depreciation but including gross government investment, was financed by foreign participation in Canadian investment. Even if housing (which is largely a field for domestic financing) is excluded from the investment figures, foreign participation accounted for less than one-quarter of all other types of investment in 1950 and 1951, and less than one-sixth in 1948.

Statistics on the total value of non-resident investments in Canada at different year ends are shown in Tables 6 to 12. Comments on this group of investments appear in a later section of this report under the heading Foreign Capital Invested in Canada.

STATEMENT 5. Canada's Official Holdings of Gold and U.S. Dollars[1]

(In millions of U.S. dollars)

—	Gold	U.S. dollars[2]	Total
December 31, 1944	293.9	608.3	902.2
December 31, 1945	353.9	1,154.1	1,508.0
December 31, 1946	536.0	708.9	1,244.9
December 31, 1947	286.6	215.1	501.7
December 31, 1948	401.3	596.5	997.8
December 31, 1949	486.4	630.7	1,117.1
December 31, 1950	580.0	1,161.5	1,741.5
December 31, 1951	841.7	936.9	1,778.6

1. Exclusive of working balances and gold held against Postal Savings Bank deposits.
2. Includes United States exchange and short-term securities of the United States Government.

Current Transactions with the United States

The current account deficit with the United States more than doubled in 1951, rising from $403 million in 1950 to $955 million and compared with $1,135 million in 1947, the highest year earlier. The largest single change responsible for this deterioration was the rise in imports of $755 million, or 36%. The rise in the value of exports was $280 million and the rise in the import balance was $475 million.

STATEMENT 6. Factors in Canada's Current Account Deficit with the United States
(Millions of Canadian dollars)

—	1947	1948	1949	1950	1951	Net Change 1951
Merchandise Trade:						
Imports from U.S.A. (adjusted)	1,951	1,797	1,899	2,093	2,848	- 755
Exports to U.S.A. (adjusted)	1,061	1,508	1,521	2,046	2,326	+ 280
Net imports	- 890	- 289	- 378	- 47	- 522	- 475
Non-monetary gold	+ 99	+ 119	+ 139	+ 163	+ 150	- 13
Tourist expenditures	+ 89	+ 154	+ 104	+ 67	+ 9	- 58
Interest and dividends	- 239	- 230	- 285	- 360	- 321	+ 39
Freight and shipping	- 117	- 82	- 67	- 83	- 112	- 29
All other current transactions	- 77	- 65	- 102	- 143	- 159	- 16
Total Current Deficit	**- 1,135**	**- 393**	**- 589**	**- 403**	**- 955**	**- 552**

This was about ten times the size of the adjusted import balance in 1950 but still much less than the import balance of $890 million in 1947. Another important contributor to the increase in the current deficit in 1951 was the reduced surplus on travel account which made up $58 million of the net deterioration of $77 million from non-merchandise transactions with the United States. Other unfavourable changes were the drop in the Canadian dollar value of gold production available for export and increased deficits from freight and shipping and miscellaneous current transactions. The only net change acting to offset some of these increases in the deficit was a reduction in payments of dividends.

Statement 7. Merchandise Trade of Canada with the United States by Main Groups, 1950 and 1951
(Millions of dollars)

	Domestic Exports			Imports		
	1950	1951	Percentage Increase	1950	1951	Percentage Increase
			%			%
Agricultural and Vegetable Products	176.9	263.4	48.9	180.1	208.5	15.8
Animals and Animal Products	253.3	265.5	4.8	57.2	73.5	28.5
Fibres, Textiles, and Textile Products	18.3	19.6	7.1	151.8	221.0	45.6
Wood, Wood Products, and Paper	1,016.4	1,114.6	9.7	92.3	125.6	36.1
Iron and its Products	136.5	169.2	24.0	811.0	1,146.8	41.4
Non-Ferrous Metals and Products	267.1	278.0	4.1	135.7	192.8	42.1
Non-Metallic Minerals and Products	74.0	89.9	21.5	430.9	435.9	1.2
Chemicals and Allied Products	58.5	67.3	15.0	134.6	165.1	22.7
Miscellaneous Commodities	20.0	30.2	51.0	136.9	243.7	78.0
Total (unadjusted)	**2,021.0**	**2,297.7**	**13.7**	**2,130.5**	**2,812.9**	**32.0**

Note. The above figures have not been adjusted for balance of payments purposes.

The rise in the volume of imports from the United States was responsible for much the major part of the increase in import debits in 1951. Another significant part of the import figure used in the balance of payments covers payments to the United States Government on account of purchases of military equipment and supplies. Part of these were delivered abroad and part had not been delivered at the year end. The portion of the rise in imports from the United States which was due to price increases was minor as the increase in the Canadian dollar prices of these imports seems to have been appreciably less than 10%

The increase in imports has been widespread. Most groups of commodities have shared the rise indicating the high levels of investment and defence activities and consumption. Another significant part of the rise seems to have been related to the inventory rise which was so heavy in the period when imports were at a peak. The groups of commodities from the United States in which increases were greatest reflect a variety of demands.

Almost half of the increase in recorded imports from the United States in 1951 was due to increased imports in the iron and products group. Of the increase of $336 million in this group of imports, $92 million was due to imports of non-farm machinery, $59 million to imports of automobile parts, passenger cars and buses, $32 million to imports of internal combustion engines, and $46 million to rolling mill products.

The miscellaneous commodities group showed the second largest increase with a change of $107 million over 1950. The items contributing most to this increase were tourist imports (included in travel expenditures), aircraft and parts (excluding engines), and refrigerators and parts. Large increases occurred also in the textiles and non-ferrous metals and products groups. In the former group, the largest rise was an increase of $24 million in raw cotton imports due mainly to a diversion of purchases to the United States, while the increase in the latter group was primarily due to increased imports of electrical apparatus.

Each of the remaining groups showed increases under $50 million.

The only group which failed to rise significantly in value was non-metallic minerals and products, which is next only to iron and its products in size. The largest commodity in this group which is bituminous coal, fell by $3 million. Of the remaining large commodities in this group, anthracite coal and gasoline decreased slightly, crude petroleum fell from $90 million to $60 million, and fuel oils rose by $10 million. Influencing the drop in imports of crude petroleum from the United States was the use of new Alberta production and an increased use of overseas sources of supply.

There was not much change in the over-all volume of exports to the United States in contrast to some recent years, like 1948 and 1950, when very rapid increases in the volume of exports to that country occurred. The gain of 13.7% in the value of exports to the United States appears to have been generally a reflection of the rise in export prices. But there were a number of fluctuations both upwards and downwards in the volume of different commodities. No single factor was alone responsible for these changes. The volume of some commodities was significantly higher, notably grains, wood pulp, paper, pulpwood, nickel and asbestos, but declines occurred in the volume of some commodities such as lumber and in most of the non-ferrous metals, notably aluminum, copper and lead. At the same time exports of many other commodities including fish and other animal products remained at a volume comparable to the previous year. United States demands remained generally very high, but declines in demand affected some commodities such as lumber. On the other hand, other commodities like pulp rose further with heavy demands and increasing supplies. Overseas markets took more basic raw materials than formerly. Consequently declines in shipments to the United States were generally accompanied by heavier shipments overseas.

Apart from merchandise trade the largest single change in current transactions with the United States in 1951 was the sharp drop in net receipts on travel account from $67 million to $9 million. A large rise in the travel expenditures of Canadians in the United States was the principal reason for this reduction in the balance of receipts. Expenditures by Canadians rose 27% over the previous peak in 1950, reaching a new high of $246 million. The volume of traffic was generally heavier, particularly in the case of automobile travellers. Average expenditures were also heavier than in previous years, there being less limitation on travel expenditures outside of Canada. Purchases of merchandise constituted a substantial part of total expenditures. There was a gain of 43% in the value of travellers' purchases entered under the $100 customs exemption privilege in 1951. In contrast there was a slight decline in the estimated expenditures of American travellers in Canada to $255 million. Although the number of visitors from the United States rose there was a drop in average expenditures due at least partly to the trend towards shorter visits which has been evident for several years.

The deficit with the United States on account of interest and dividends was reduced by $39 million to $321 million, which was still much higher than in the years preceding 1950. The principal change in 1951 was a reduction in dividend payments by Canadian companies to United States shareholders from $321 million to $284 million. Interest payments on Canadian bonds and debentures held in the United States rose by $5 million to $94 million. The remainder of the change was an increase in receipts from the United States by Canadians of $4 million of interest and $3 million of dividends to

totals of $15 million and $42 million respectively. The drop in dividends mentioned above, occurred in payments by Canadian subsidiaries to parent companies. There was an increase in dividends paid to shareholders in the United States by public companies. The reduction in dividends paid to parent companies indicates that a larger part of earnings of United States controlled companies was reinvested in 1951 than in the preceding year as earnings were generally higher. Influencing the withdrawal of earnings have been such factors as the various needs of companies for funds in Canada at a time of high activity and investment and tightness of credit. Interest payments only rose moderately in 1951 even though there was a large increase in United States holdings of Canadian bonds. Most of the new issues occurred well on in the year and consequently interest payments on new issues in 1951 were not large.

The deficit on freight and shipping account with the United States of $112 million was $29 million larger than in 1950. Most of this change was brought about by the increased inland freight to the border on the larger volume of commodities imported from the United States. Payments for inland freight on all commodities moving by rail increased only moderately. This was due to the large element of freight on coal, the volume of which did not change much, and to the reduced premium on United States exchange. There was a substantial increase on inland freight on non-coal imports, reflecting the rise in volume, and some increase in United States rail rates. Payments to United States shipping companies for charters and ocean freight did not make up a large part of the increase, although they were higher than in the previous year. Receipts from the United States on freight and shipping account were not much different in total from the previous year. Larger receipts by Canadian railways on inland freight were generally offset by reduced receipts of Canadian ships carrying exports to the United States, particularly in some trades like lumber.

There was a substantial increase in the deficit from migrants' funds and inheritances and from all other current transactions which rose in the year from $143 million to $159 million. There were marked increases in both receipts and payments, but the increase in payments was greater, while costs of business services contributed to the higher level of both receipts and payments. Another factor increasing receipts was expenditures in Canada by the United States on defence activities and installations. In the case of payments to the United States an important element in the higher level originated in greater outlays for services incurred in the expansion of productive capacity.

Statement 8. Capital Transactions Between Canada and the United States [1], 1949-1951

(Millions of Canadian Dollars)

	1949	1950	1951
Transactions in Canadian debtor securities:			
Net sales of outstanding issues	+ 26	+ 362	+ 20
New Issues	+ 105	+ 210	+ 404
Retirements	- 136	- 263	- 159
Transactions in foreign debtor securities:			
Net sales of outstanding issues	+ 15	+ 66	+ 15
Retirements	+ 1	+ 7	+ 2
Direct investments in Canada [2]	+ 84	+ 199	+ 259
Canadian direct investments abroad [2]	+ 16	+ 41	- 4
Change in Canadian dollar balances owned in the United States	- 8	+ 91	- 53
Refunding loan proceeds set aside for retirements	- 18	+ 18 [3]	—
Other net private capital movements including errors and omissions	- 36	+ 229	+ 76
Net inflow of capital [1]	**+ 49**	**+ 960**	**+ 560**

1. Exclusive of change in official holdings of gold and U.S. dollars but inclusive of some capital transactions on account of other countries.
2. Exclusive of undistributed profits.
3. Both this item and the related retirements have been recorded at the rate of exchange in effect at the time of the refunding, viz, $1.00 U.S. = $1.00 Canadian.

Note. A minus sign (-) designates an outflow of capital from Canada.

Capital Transactions with the United States

The general features of capital movements between Canada and the United States have been described in the section above on Capital Movements. A summary of the principal groups of movements in the account with the United States is shown in statement 8. The net inflow of capital from the United States of $560 million in 1951 compares with $960 million in 1950.

Relatively more of the net inflow of capital in 1951 was in types of movement which usually represent long term investment in Canada, such as direct investments, and new issues of securities floated in the United States. Conspicuously large declines occurred in inflows for the acquisition of outstanding domestic securities and in short term movements. There was also much less of the inflow in 1951 taking the form of reductions in Canadian assets in the United States than in previous years.

The value of United States investments in Canada shown in statements of foreign capital invested in Canada rose by some $660 million according to a very provisional estimate of the value of investments at the end of 1951 shown in Table 6. This growth mainly occurred in the value of direct investments in branches and subsidiaries through transfers of capital and reinvestments of undistributed earnings, but the value of portfolio investments rose through sales of stock of Canadian companies, and through new issues of Canadian bonds in the United States which exceeded retirements and net repurchases of outstanding bonds. The corresponding increase in the value of the United States investments in 1950 was $670 million. In both years these increases are exclusive of changes in United States bank balances in Canada and changes in a variety of other short term types of liability which are not included in totals of United States investments in Canada.

STATEMENT 9. Canadian Domestic Exports to the United Kingdom, 1948-1951

(Millions of dollars)

	1948	1949	1950	1951
Wheat	196.5	280.7	173.7	159.2
Wheat flour	61.6	46.7	41.0	43.0
Bacon and hams	67.8	23.4	24.4	0.6
Cheese	11.1	15.2	15.1	8.7
Tobacco, unmanufactured	6.3	7.3	8.3	13.5
Planks and boards	43.9	37.4	20.4	79.0
Woodpulp	21.4	19.3	13.1	37.8
Newsprint	5.3	8.9	1.9	7.5
Other forest products	30.0	19.2	5.3	16.9
Aluminum, primary and semi-fabricated	39.9	48.7	39.2	57.2
Copper, primary and semi-fabricated	34.7	32.3	29.3	28.6
Zinc and lead, primary and semi-fabricated	27.1	29.9	14.7	40.1
Other non-ferrous metals	30.2	37.0	34.2	55.7
All other commodities	111.1	99.0	49.3	83.7
Total exports	**686.9**	**705.0**	**469.9**	**631.5**

Note. The above figures have not been adjusted for balance of payments purposes.

Current Transactions with the Sterling Area

A striking feature of current transactions in 1951 was the return of a substantial credit balance with the sterling area. This rose from $5 million in 1950 to $191 million in 1951. Most of the change occurred in transactions with the United Kingdom which rose from a current surplus of $28 million to one of $220 million. There was again a small current deficit with the rest of the sterling area amounting to $29 million.

The transformation in the current surplus with the United Kingdom was mainly caused by the increase in Canadian exports. Other contributors to the improvement were a larger surplus on freight and shipping account and increased receipts of interest with the first payment of interest by the United Kingdom on the post-war loan from Canada.

The increase in exports to the United Kingdom was from $469 million to $636 million. The most

important increases were in forest products and non-ferrous metals which rose $100 million and $64 million respectively. In the former case the increases were general with lumber and wood pulp making up the bulk of the increase. In non-ferrous metals aluminium, lead and zinc showed large increases. At the same time there were declines in exports of food, the largest being in wheat, bacon and cheese.

The increase of $18 million, or 4% in the value of imports from the United Kingdom was moderate compared with the expansion which occurred in the previous year, and the over-all volume of imports appears to have declined. The principal reason for the decline in volume was the reduction in imports of automobiles in the second half of the year. The value of automobiles imported in the year dropped from $73 million to $29 million. The value of imports of textiles rose to a new peak and imports of many other commodities were higher, particularly in the field of metal products. But these increases were less than the drop in automobiles.

The improvement in the current balance from non-merchandise transactions with the United Kingdom was $43 million. These transactions were close to balance in 1951 compared with a deficit of $42 million in the previous year. The principal factors bringing about this change were the increases in interest receipts of $24 million and an increase in freight and shipping receipts of $27 million. The former change was mainly due to the receipt of $23.7 million on the post-war loan. The latter improvement was a reflection of earnings on the increased volume of exports combined with transfers of earnings to Canadian shipping companies by the British managers of Canadian vessels to whom ships had been transferred in 1950 for operation under British registry. Receipts from United Kingdom travellers and transfers of immigrants' funds and inheritances were only slightly higher in 1951 as each of these types of British expenditure are restricted. This stability in transfers by immigrants continued in spite of a much larger volume of immigrants from the United Kingdom as there was a smaller portion of instalment transfers continuing from earlier years.

There was also a substantial increase in current Canadian payments to the United Kingdom for non-merchandise items. Payments on freight and shipping account were higher with larger earnings of British shipping companies, and payments of interest and dividends of $59 million also showed a gain of $4 million over 1950 with a rise in dividends to United Kingdom shareholders. There were also increases in payments to the United Kingdom for services. Larger transfers on account of insurance and a rise in government expenditures were the principal factors in the increase in payments for miscellaneous services.

There was again a small current deficit with the rest of the sterling area in contrast with the surplus which was characteristic before 1950. The deficit rose from $23 million to $29 million. This contrasts with a surplus of $135 million in 1949 and $241 million in 1947. The principal changes in current transactions with this group of countries in 1951 were on merchandise account. An increase in the volume of exports occurred but the rise in prices of some primary commodities, like wool, rubber and tin purchased from Commonwealth countries, was enough to more than offset this gain.

Exports to most Commonwealth countries were higher in 1951 than in 1950 but the total value was still less than in 1948 or 1949. Restrictions on imports of Canadian goods continued to prevent the total of exports to Commonwealth countries returning to the levels before the intensification of restrictions in 1949. These were particularly instrumental in reducing or eliminating many exports of manufactured goods from Canada. The bulk of the increase in the value of exports which did occur was concentrated in a small range of basic commodities. While many other commodities did increase in 1951 they remained comparatively small individually. For example, the main items accounting for the increase were wheat, lumber and automobiles. The increase in wheat exports was primarily due to an increase in exports to India which rose from $5.2 million in 1950 to $18.7 million in 1951. Exports of automobiles, both passenger and freight, increased from $23.7 million to $33.7 million, with the Union of South Africa accounting for almost half of the rise. Other increases were scattered through a wide range of commodities. Exports of locomotives to India, which had been $27.1 million and $10.9 million respectively in 1949 and 1950, were of negligible size in 1951.

The principal factor influencing the sharp rise in the value of imports from the rest of the sterling area was the increase in prices of primary commodities. The volume imported of many of these was no higher than in the previous year, increases in volume being less frequent than declines. The greatest increases in value were in commodities imported from Australia, the Federation of Malaya, and New Zealand. The value imported from other regions was approximately the same as in the previous year.

There continued to be net receipts from all other current transactions with the rest of the sterling area. These were slightly less than in the previous year with a decline in dividend receipts. Earnings on inland and ocean freight were the principal sources of net receipts but were again much less than several years ago when the volume of trade and the number of Canadian shipping vessels on Commonwealth routes were greater.

STATEMENT 10. Summary of Current and Capital Transactions Between Canada and the Sterling Area, 1938 and 1946-1951

(millions of dollars)

—	1938[1]	1946	1947	1948	1949	1950	1951[3]
Current Account:							
Gross Current Receipts	508	1,144	1,382	1,260	1,230	829	1,117
Gross Current Payments	337	480	508	645	656	824	926
Current Account Balance	+ 171	+ 664	+ 874	+ 615	+ 574	+ 5	+ 191
Current surplus with United Kingdom	+ 127	+ 500	+ 633	+ 486	+ 439	+ 28	+ 220
Current surplus with Other Sterling Area[1]	+ 44	+ 164	+ 241	+ 129	+ 135	- 23	- 29
Capital Account:							
Postwar Loan to United Kingdom	—	- 540	- 423	- 52	- 120	- 50	+ 14
Repayments by U.K. on War Loans	—	+ 89	+ 104	+ 64	+ 5	+ 51	+ 34
British Financial Settlement and Interim Advances (net)	—	+ 38	—	—	—	—	—
Repatriations of Securities	- 33	- 131	- 50	- 18	- 26	- 53	- 33
Other Capital Movements	- 26	+ 29	- 7	- 20	+ 74	+ 61[4]	- 324[4]
Net Capital Movement	- 59	- 515	- 376	- 26	- 72	+ 9	- 17
Sales of Gold or Convertible Exchange	- 112[2]	- 150	- 505	- 597	- 491	- 14	- 174
Balancing Item	—	+ 1	+ 7	+ 8	- 11	—	—
	- 171	- 664	- 874	- 615	- 574	- 5	- 191

1. Includes only Commonwealth countries in 1938.
2. In 1938 this item indicates the net amount of exchange available for multilateral settlements.
3. Subject to revision.
4. Including balancing item.

Capital Transactions with the Sterling Area

Capital transactions between Canada and the sterling area of a long-term character were inwards on balance, although to a considerable extent offsetting. There were inflows in connection with payments of government loans and for direct investment in Canada by British companies and outflows in connection with security transactions in the form of retirements and liquidations of outstanding securities and small outflows for direct investments in the sterling area. Short-term movements, mainly in the form of a reduction in British balances in Canada, were large and outward in direction in contrast to the previous year.

Repayments on government loans totalling $47.8 include the first instalment of $14 million principal on the post-war loan of 1946 and $33.8 million on the war loan of 1942. The amount outstanding on the post-war loan was, therefore, reduced to $1,171 million and the war loan, which originally totalled $700 million, was reduced to approximately $222.7 million. Repayments on the war loan are related to certain groups of capital movement between Canada and the United Kingdom, principally liquidations in earlier periods of United Kingdom holdings of Canadian securities either through sale or redemption. But offsetting part of these outward movements of capital from Canada in the calculation are inflows of a direct investment character in connection with the development or expansion of businesses in Canada owned in the United Kingdom and in earlier years British expenditures in Canada on certain aircraft.

Capital inflows on private account included $28 million for direct investment by British businesses in Canadian branches and subsidiaries. This is considerably greater than in the previous year when corresponding inflows were $19 million. These capital movements shown in the capital account of the balance of payments are exclusive of reinvested earnings and consequently the full rise in value of British direct investments was greater than this. In 1950 the value of all British direct investments in Canada rose by about $40 million to $447 million. The growth in this group of investments has been chiefly in concerns engaged in manufacturing or merchandising. These two groups alone show a rise of $47 million in 1950 of which $38.9 million was in manufacturing and $8.3 million in merchandising establishments. These represent a substantial rate of annual growth, about 15% in the case of each group of investment. There were, however, in 1950 small declines in investments in railways and financial concerns. In the four years from 1947 to 1950 British direct investments in the manufacturing industries in Canada have risen by $133 million or 86%.

Transactions in securities with the United Kingdom led to outward movements of capital as investments of this type are still subject to British controls. Redemptions of Canadian securities, mainly owned in the United Kingdom, amounted to $24 million. But there were some new issues sold to United Kingdom residents in connection with refinancing. The issues retired were chiefly municipal and corporation bonds. Repurchases of Canadian securities from the United Kingdom amounted to $16 million, about half the total of the previous year and were mainly made up of stocks of Canadian companies. Also adding to the outflow of capital to the sterling area were net outward movements from Canada in connection with the establishment or development of direct investments by Canadian companies. These were $6 million compared with $4 million in 1950.

Short-term movements of capital were outwards from Canada on balance. The largest change was a reduction in British cash balances in Canada which had risen during the previous year.

Multilateral settlements with the sterling area amounted to $174 million. This contrasts with the previous year when these transactions were mainly offsetting. These debit entries represent receipts of exchange from the United Kingdom and the rest of the sterling area taking a variety of forms. While official transactions make up the largest part of the total there were also some private transactions in the settlement of accounts between the sterling area and Canada.

Transactions with Other Overseas Countries

One of the outstanding features of Canadian trade in 1951 was the rise in exports to overseas countries. Exports to all non-sterling countries overseas rose by $301 million. There was a rise in Canadian imports from the same group of countries of about one-half this amount with the result that the export balance rose by $166 million. This was the principal reason for the rise in the credit balance with these countries of $171 million of which $111 million was from the improvement with the non-sterling countries of the OEEC. The current account surplus of $220 million with these latter countries was almost as large as the surplus in 1948. There was also a surplus of $20 million with the remaining non-sterling countries overseas compared with a deficit of $40 million in the previous year.

A large part of the rise in exports was in food and raw materials to the OEEC countries. Exports to this region rose by $166 million and the export balance by $106 million, as imports also increased moderately. Increases in exports to Belgium, France, Germany, Italy, the Netherlands and Norway were particularly large and with most of these countries the export balance was also large even though Canadian imports from the same countries generally increased sharply. About one-third of the exports to Europe was in wheat and flour in 1951 and the total of these commodities was almost double the previous year. Another sharp gain occurred in exports of coarse grains, and large increases in wood pulp, pulpwood and copper constituted most of the remainder of the increases in exports to the Continent. In the case of imports from Europe there was a striking increase in imports of rolling mill products. Imports of machinery and textiles were also much higher. The increase was distributed over imports from most countries, but increases from Germany, Belgium and France were most outstanding.

Another outstanding development in trade was the rise in exports to Japan which increased to more than three times the value in 1950, with particularly large gains in wheat and pulp. A general increase in exports to Latin America also contributed to the growth in exports and Canada had export balances with some countries in that region, such as Brazil and Mexico, where trade in the previous year had resulted in import balances. The large import balance from Venezuela arising from petroleum imports increased, however, with the result that the import balance with Latin America was only reduced from $70 million to $66 million.

The principal changes in non-merchandise items were increased receipts on freight and shipping account and in transfers by immigrants. The former was due chiefly to larger inland freight receipts on the increased volume of goods exported and the latter reflects the increased volume of migration from the Continent to Canada. There were also increased payments on shipping account for freight on imports carried by European owned ships, and personal remittances were also heavier.

Capital transactions with other overseas countries in 1951 included receipt of $20 million principal on Canadian export credits. Net sales of outstanding Canadian securities amounted to $34 million compared with $1 million in 1950, and were mainly to Switzerland, while $9 million was received for direct investment in Canada compared with $3 million in 1950. While there was on balance a small net liquidation of Canadian direct investments in these countries in 1950, in 1951 there was an outflow from Canada of $16 million in connection principally with Canadian enterprises in Latin America. The outflow of $23 million recorded under other capital movements compares with an outflow of $29 million in 1950 and reflects mainly the reduction of Canadian dollar liabilities to these countries and to international institutions.

Mutual Aid by Canada

The entries of Mutual Aid shown in Table 3 are confined to contributions by the Canadian government to the North Atlantic Treaty countries under the Defence Appropriation Act. These contributions have been made up mainly of transfers from Canadian stocks of military equipment and supplies. The shipments have not been included in totals of recorded exports in the statistics of Canadian merchandise trade because of their special character. The contributions also include the provision of air training in Canada to European air crews. The entries in current credits covering exports of Mutual Aid are offset by entries of corresponding size in current debits representing the contribution of this aid to Nato countries. The figures of Mutual Aid have not been shown by countries, being only included in the column for all countries. The provision of Mutual Aid does not give rise to international capital movements. Consequently the entry of Mutual Aid in the current account does not affect the current account balance which in the past two years has reflected the net movement of capital to Canada.

Other contributions by the Canadian government to the work of international organisations are included in the item "All other Current Payments", of the current account. In the last two years these have included cash contributions and some exports in kind to such organisations as the International Refugee Organisation, the United Nations International Children's Emergency Fund, and United Nations Korea Relief.

Miscellaneous Current Transactions

Miscellaneous current transactions have grown rapidly in the last few years. The bulk of these transactions is with the United States, but in some cases, such as insurance, transactions with the United Kingdom are also large. These transactions are shown in five groups in statement 11. Miscellaneous government transactions exclude such items as imports and interest; they include grants to international agencies but not to Nato countries, the latter being covered separately. The largest item, and the one accounting for most of the fluctuation from year to year, is that of business services.

In the item labelled business services and other transactions, the business services account for over four-fifths of the receipts and about three quarters of the payments. On the payments side, a large part of the other transactions consists of payments by railways for various purposes which often correspond to services. The business services cannot be classified easily at this time, but they cover such items as royalties, patents and copyrights, administration and management, services on imports, commissions, and so on. A large part of these services are associated with United States direct investments in Canada and Canadian direct investments abroad. The high rate of investment activity in recent years has led to particularly large payments to the United States for services in connection with these development projects.

STATEMENT 11. Miscellaneous Current Transactions With All Countries — 1950 and 1951

(Millions of dollars)

	1950		1951[1]	
	Receipts	Payments	Receipts	Payments
Government transactions, n.o.p.	51	39	58	42
Insurance transactions, n.o.p.	18	28	18	35
Personal and institutional remittances	16	36	18	44
Miscellaneous income[2]	30	25	29	19
Business Services and other transactions	118	256	153	316
Total	**233**	**384**	**276**	**456**

1. Subject to revision.
2. Including transfers of branch profits by insurance companies.

Changes in Prices and Volume

As was the case in 1950, the prices of merchandise imports as a whole in 1951 rose more quickly than did export prices. The result was that the terms of trade, measuring the ratio of export to import prices, continued to decline. In other words, as compared with the base period 1948, a larger volume of commodities had to be exported in 1951 to secure a given volume of imports. The deterioration in the terms of trade was not as great as in the previous year, since the increase of 13.1% in export prices was not much less than the import price increase of 14.2%. It should be mentioned also that the greatest deterioration in the terms of trade in 1950 and 1951 was concentrated in the period from December 1950 through June 1951. This period coincides roughly with the period of large deficits in our current account. In the latter half of 1951 there was a marked improvement in the terms of trade which raised this index to 103.5 in December from a low point of 94.1 in May.

The volume indexes indicate that in 1951 the 11% increase in the volume of exports was not far behind the 12.5% increase in the volume of imports, while in 1950 the volume of exports remained almost unchanged while imports rose 7.6%.

Here again it is worth stressing that the heaviest import volumes were concentrated in the last quarter of 1950 and the first half of 1951, falling off considerably in the latter half of 1951. The volume of exports, on the other hand, was particularly low in the first half of 1951 when import volume was so high. In the second half of the year, however, the volume of exports was much higher.

STATEMENT 12. Merchandise Export and Import Price and Volume Indexes and the Terms of Trade

1948 = 100

—	Export Price Index	Import Price Index	Terms of Trade	Export Volume Index	Import Volume Index
1948	100.0	100.0	100.0	100.0	100.0
1949	103.3	103.1	100.2	94.2	101.6
1950	108.3	110.3	98.2	93.6	109.2
1951	122.5	126.0	97.2	103.9	122.9

Foreign Exchange Rates

The market rate for the United States dollar in Canada averaged $1.0527 in 1951. The rate rose from an average of $1.0517 in January to $1.0694 in June and declined thereafter to $1.0435 in November and $1.0256 in December.

The end of foreign exchange control in Canada was announced by the Minister of Finance on December 14, 1951. Consequently, all Canadian exchange restrictions on international security transactions and other capital movements were eliminated from that date.

FOREIGN CAPITAL INVESTED IN CANADA

In 1950 and 1951 foreign capital investments in Canada increased more than in any earlier years in recent decades. The annual increase of over $700 million in value in each year has been at a rate close to 9% of the total of foreign investments in Canada. The largest part of this increase has been in the value of United States investments which have been increasing at a rate of more than 10% in each of the last two years. The total value of non-resident investments in Canada at the end of 1951 is estimated provisionally at about $9,424 million compared with $8,646 million at the end of 1950 and $7,939 million in 1949. At the close of the recent war the value of non-resident investments was $7,092 million. The principal growth has been in United States investments. These have risen from $4,990 million in 1945 to $5,905 million in 1949, $6,565 million in 1950 and estimated $7,235 million in 1951. In the same six years British investments in Canada have not changed so much in total value, although they also have risen in the last two years from $1,694 million in 1949 to $1,723 million in 1950 and an estimated $1,772 million in 1951. Investments held in other countries than the United Kingdom and the United States did not change greatly in the period until 1951 when a sharp rise occurred from $358 million in 1950 to an estimated $417 million by the end of 1951. Detailed statistics on these investments appear in Tables 6 to 12.

The rise in United States investments has been both in direct investments and in portfolio holdings

of public securities. In the two years 1950 and 1951 direct investments have increased by approximately $800 million in value. Holdings of Canadian government and municipal bonds rose by $364 million and other portfolio holdings of securities by an estimated $131 million. These increases are in the book values of the investments and reflect reinvested earnings. There was an even greater rise in the market values of the investments in the last two years and the aggregate market value at the end of 1951 would be much higher than the book values shown in these statistics.

STATEMENT 13. Value of United States Investments in Canada 1945, 1949-1951

(Millions of dollars)

—	1945	1949	1950	1951[1]
Direct Investments	2,304	3,095	3,442	3,900
Government and Municipal Bonds	1,450	1,534	1,746	1,898
Other Portfolio Investments	1,106	1,106	1,187	1,237
Miscellaneous Assets	130	170	190	200
Total book value	**4,990**	**5,905**	**6,565**	**7,235**

1. Provisional estimate subject to revision.

United States direct investments at book values are now more than twice the value of this group in 1939. The distribution and growth of direct investments up to 1950 are shown in Table 12. This growth has been distributed throughout the main branches of industry with the principal exception of public utilities in which group the value of United States investment in controlled companies has not changed much. The increased investment in the petroleum industry and in mining in the last two years has accounted for a large part of the rapid growth since 1949. Increased investments in manufacturing have been a feature of all post war years. The extent of the inflows of capital in 1950 and 1951 into the petroleum industry and mining is shown in statement 15. In the latter statement only transfers of capital shown in the capital account of the balance of payments are included. In addition there have been substantial increases in investment through reinvested earnings particularly in the field of manufacturing.

At the end of 1950 there were 2,568 Canadian concerns controlled in the United States, of which 1,229 were in manufacturing. This compares with a total of 1,985 concerns controlled in the United States in 1945, of which 992 were in manufacturing.

Relative Size of Non-resident Capital Invested in Canada

This growth in non-resident investments in Canada has occurred in a period of exceptional development in Canada. As the non-resident investment has only financed a comparatively small portion of the total capital investment there has been no wide change in the non-resident owned ratio of all investments in Canada. The latter has been influenced more by the investments in earlier periods of national development when the non-resident contribution was relatively greater. Earlier periods of rapid development this century were in the years immediately before the First Great War and in the period ending in 1930. A comprehensive valuation of all the capital invested in Canada at the end of 1951 is not available and in any case there are special problems of evaluating many types of Canadian owned asset. It is possible, however, to judge the relative position of foreign capital in Canada in some spheres. For example, non-resident holdings of Canadian bonds, estimated at $3,455 million at the end of 1951, constituted 15.2% of the total funded debt of all Canadian governments and corporations of approximately $22.6 billion as shown in statement 14. The bonds owned in the United States at that date were 12.2% of the total Canadian bonded debt. These ratios are not very different from several years earlier even though the non-resident holdings of Canadian bonds has increased through new issues sold in the United States and through transactions in outstanding bonds. In 1947 non-residents owned 13.1% of an estimated $21.5 billion outstanding at that time. In 1939 non-resident holdings of $3,504 million were over one-third of the $10 billion of Canadian bonds then outstanding. Bonds owned in Canada have risen from about $6.5 billion in 1939 to some $19.2 billion in 1951.

Another sphere of investments where the non-resident share of capital may be measured approximately is in the business sector of the Canadian economy. In this sphere the non-resident owned ratio is higher than in the case of bond ownership. The group of total investments in Canada selected for this comparison includes corporate investments

STATEMENT 14. Estimated Distribution of Ownership of Funded Debt of Canadian Governments and Corporations, End of 1951

(Millions of dollars)

Items	Distribution of Ownership				
	Amounts Outstanding	Canada	United States	United Kingdom	Other Foreign Countries
Dominions — Direct and Indirect excluding Railways	14, 842	13, 829	887	70	56
Provincials — Direct and Indirect excluding Railways	2, 674	1, 903	732	38	1
Municipals	1, 281	962	279	38	2
Total — Government Bonds	**18, 797**	**16, 694**	**1, 898**	**146**	**59**
Per cent Distribution	100. 0	88. 81	10. 10	0. 78	0. 31
Steam Railways	1, 135	479	315	309	32
Other Corporations	2, 700	2, 004	559	110	27
Total Bonds and Debentures	**22, 632**	**19, 177**	**2, 772**	**565**	**118**
Per cent Distribution	100. 0	84. 73	12. 25	2. 50	0. 52

1. Amounts outstanding exclude sinking funds, and in some cases are estimated. The total for other corporations excludes some domestic issues held in Canada
2. Some securities shownas held in the United States and United Kingdom are beneficially owned in other countries.

in manufacturing, mining, railways and public utilities, and in the case of merchandising an estimate of all investments including those in non-corporate forms. But many groups of assets predominantly owned in Canada have not been taken into the calculation such as residential properties, agricultural assets and other forms of real estate.

The most recent year for which a detailed evaluation of Canadian owned investments in the business sector of the economy is available is 1949. This shows that Canadian ownership in that year amounted to about 68% of the total. An estimate for 1950 points to about the same proportion in that year and it is not likely that the corresponding ratio in 1951 was changed significantly. The non-resident owned ratio of 32% in these years compares with 38% in 1939. United States ownership of Canadian industry amounted to less than a quarter of the total capital invested by the end of 1950.

Non-resident ownership in manufacturing varies widely in different branches of industry. In some industries like the automobile industry most of the capital is non-resident owned or controlled, while in other industries, like cotton textiles or primary iron and steel, most of the ownership or control is Canadian. In manufacturing as a whole the total non-resident ownership was about 44% in 1949 and United States ownership about 37% including investments in petroleum development by companies engaged in petroleum refining.

In mining and smelting, including only investments in petroleum exploration and development by non-refining companies, the non-resident owned percentage had risen in 1949 to 42% and the United States investment to 35%. In 1950 the United States investment in all branches of the petroleum industry in Canada amounted to 54% of the total book value.

In railways non-resident ownership in 1949 was 43% and United States ownership 20%, while with other utilities the corresponding percentages were 16% and 13%.

In merchandising non-resident ownership has continued to be close to 9%.

If it were possible to estimate satisfactorily the total value of all forms of Canadian investment it seems likely that the ratio of non-resident ownership to all investments in Canada is somewhere closer to the 15% in the case of funded debt than to the 32% in the case of the narrower field of business investment.

STATEMENT 15. Estimates of New Inflows of Capital from the United States for Direct Investment in Canada, 1948-1951

(Millions of Canadian dollars)

	1948	1949	1950	1951[1]
New Inflows of Capital:				
Petroleum exploration, development and refining	23	59	98	140
Transportation	—	—	18	14
Mining	4	10	29	37
Pulp and Paper	14	3	9	22
Other Manufacturing and miscellaneous	37	42	88	86
Total Inflow of new capital as above	78	114	242	299
Return of Capital	11	30	43	40
Net Capital Inflow (as in statement 8)	67	84	199	259

1. Subject to revision.

TABLE 1. Summary of Revised Estimates of Canada's International Accounts, 1950

(Millions of dollars)

—	All Countries	United Kingdom and Sterling Area	Other O.E.E.C. Countries	Other Overseas Countries	United States[1]
A. Current Account:					
1. Current Account Balance	- 329	+ 5	+ 109	- 40	- 403
B. Capital Account:					
1. Postwar loan to United Kingdom	- 50	- 50	—	—	—
2. Principal repayments on Export Credits	+ 23	—	+ 16	+ 7	—
3. Repayment of war loans	+ 51	+ 51	—	—	—
4. New Issues of Canadian securities	+ 210	—	—	—	+ 210
5. Retirements of Canadian securities	- 283	- 18	- 2	—	- 263
Net trade in outstanding securities:					
6. Canadian securities	+ 328	- 35	- 4	+ 5	+ 362
7. Foreign securities	+ 68	+ 1	+ —	+ 1	+ 66
8. Direct Investments in Canada	+ 221	+ 19	+ 1	+ 2	+ 199
9. Canadian direct investments abroad	+ 36	- 4	- 2	+ 1	+ 41
10. Other capital movements[2]	+ 419	+ 45	+ 20	+ 9	+ 345[3]
11. Net receipts of exchange from overseas countries	—	- 14	- 138	+ 15	+ 137
12. Balance from all above transactions	+ 694	—	—	—	+ 694
13. Increase in official holdings of gold and U.S. dollars	+ 694	—	—	—	+ 694

1. Including some capital transactions on account of "other overseas countries".
2. Including errors and omissions.
3. Including increase in Canadian dollar balances owned in the United States ($91 million) and use of 1949 loan proceeds set aside for retirements in 1950 ($18 million).

Note. A minus sign (-) designates payments, outflows of capital from Canada, or receipts of exchange in the single case of item B. 11.

TABLE 2. Summary of Preliminary Estimates of Canada's International Accounts, 1951

(Millions of dollars)

—	All Countries	United Kingdom and Sterling Area	Other O.E.E.C. Countries	Other Overseas Countries	United States[1]
A. Current Account:					
1. Current Account Balance	- 524	+ 191	+ 220	+ 20	- 955
B. Capital Account:					
Repayment to Government of Canada:					
1. Postwar loans	+ 34	+ 14	+ 17	+ 3	—
2. War loans	+ 34	+ 34	—	—	—
3. New Issues of Canadian securities	+ 411	+ 7	—	—	+ 404
4. Retirements of Canadian securities	- 184	- 24	- 1	—	- 159
Net trade in outstanding securities:					
5. Canadian securities	+ 38	- 16	+ 34	—	+ 20
6. Foreign securities	+ 12	—	—	- 3	+ 15
7. Direct Investments in Canada	+ 296	+ 28	+ 9	—	+ 259
8. Canadian direct investments abroad	- 26	- 6	- 5	- 11	- 4
9. Other capital movements[2]	- 52	- 54	- 13	- 10	+ 25[3]
10. Net receipts of exchange from overseas countries	—	- 174	- 261	+ 1	+ 434
11. Balance from all above transactions	+ 39	—	—	—	+ 39
12. Increase in official holdings of gold and U.S. dollars	+ 39	—	—	—	+ 39

1. Including some capital transactions on account of "other overseas countries".
2. Including errors and omissions.
3. Including decrease in Canadian dollar balances owned in the United States ($53 million).

Note. A minus sign (-) designates payments, outflows of capital from Canada, or receipts of exchange in the single case of item B. 10.

TABLE 3. Current Account of the Canadian Balance of International Payments Revised Statement for 1950 and Preliminary Estimates for 1951

(Millions of dollars)

	All Countries		United Kingdom		Other Sterling Area		United States		Other O.E.E.C. Countries		All Other Countries	
	1950	1951	1950	1951	1950	1951	1950	1951	1950	1951	1950	1951
A. Current Receipts:												
Merchandise exports (adjusted)	3,139	3,950	469	636	201	264	2,046	2,326	200	366	223	358
Mutual Aid to NATO Countries[1]	57	165	—	—	—	—	—	—	—	—	—	—
Gold Production available for export	163	150	—	—	—	—	163	150	—	—	—	—
Travel expenditures	275	271	7	8	3	3	260	255	4	4	1	1
Interest and dividends	91	115	6	30	8	4	50	57	14	14	13	10
Freight and shipping	284	337	61	88	18	17	157	164	24	37	24	31
Inheritances and immigrants' funds	58	77	13	14	1	3	31	32	11	22	2	6
All Other current receipts	233	276	39	47	3	3	168	213	12	5	11	8
Total Current Receipts	**4,300**	**5,341**	**595**	**823**	**234**	**294**	**2,875**	**3,197**	**265**	**448**	**274**	**414**
B. Current Payments:												
Merchandise Imports (adjusted)	3,129	4,103	399	417	244	310	2,093	2,848	113	173	280	355
Travel expenditures	226	280	19	20	5	5	193	246	8	8	1	1
Interest and dividends	474	447	55	59	—	—	410	378	7	8	2	2
Freight and shipping	301	347	36	43	3	3	240	276	14	18	8	7
Inheritances and emigrants' funds	58	67	10	10	1	1	44	52	2	3	1	1
Mutual Aid to NATO Countries[1]	57	165	—	—	—	—	—	—	—	—	—	—
All other current payments	384	456	48	54	4	4	298	352	12	18	22	28
Total Current Payments	**4,629**	**5,865**	**567**	**603**	**257**	**323**	**3,278**	**4,152**	**156**	**228**	**314**	**394**
C. Current Account Balance	- 329	- 524	+ 28	+ 220	- 23	- 29	- 403	- 955	+ 109	+ 220	- 40	+ 20

1. Mutual Aid is not included in figures for countries or areas, but is included in total receipts and total payments with all countries. This represents contributions to North Atlantic Treaty Countries of equipment and supplies and the provision of air training by the Canadian Government.

TABLE 4. Current Account Between Canada and All Countries, 1926-1951

(Millions of dollars)

Year	Current Receipts[1]	Current Expenditures[2]	Net Balance Including Mutual Aid Exports	Mutual Aid and Other Official Contributions	Net Balance on Current Account Indicating Net Movement of Capital
1926	1,665	1,538	+ 127	—	+ 127
1927	1,633	1,643	- 10	—	- 10
1928	1,788	1,820	- 32	—	- 32
1929	1,646	1,957	- 311	—	- 311
1930	1,297	1,634	- 337	—	- 337
1931	972	1,146	- 174	—	- 174
1932	808	904	- 96	—	- 96
1933	829	831	- 2	—	- 2
1934	1,020	952	+ 68	—	+ 68
1935	1,145	1,020	+ 125	—	+ 125
1936	1,430	1,186	+ 244	—	+ 244
1937	1,593	1,413	+ 180	—	+ 180
1938	1,361	1,261	+ 100	—	+ 100
1939	1,457	1,331	+ 126	—	+ 126
1940	1,776	1,627	+ 149	—	+ 149
1941	2,458	1,967	+ 491	—	+ 491
1942	3,376	2,275	+ 1,101	- 1,002	+ 99
1943	4,064	2,858	+ 1,206	- 518	+ 688
1944	4,557	3,539	+ 1,018	- 960	+ 58
1945	4,456	2,910	+ 1,546	- 858	+ 688
1946	3,365	2,905	+ 460	- 97	+ 363
1947	3,746	3,661	+ 85	- 38	+ 47
1948	4,147	3,676	+ 471	- 19	+ 452
1949	4,077	3,890	+ 187	—	+ 187
1950	4,300	4,572	- 272	- 57	- 329
1951	5,341	5,700	- 359	- 165	- 524

1. Including Mutual Aid exports.
2. Excluding Mutual Aid offsets.

TABLE 5. Geographical Distribution of the Balance on Current Account, 1926-1951
(Millions of dollars)

Year	All Countries	United Kingdom [1]	Other Overseas Countries [2]	United States [3]
1926	+ 127	+ 58	+ 300	- 231
1927	- 10	- 19	+ 257	- 248
1928	- 32	- 21	+ 338	- 349
1929	- 311	- 99	+ 225	- 437
1930	- 337	- 106	+ 113	- 344
1931	- 174	- 54	+ 85	- 205
1932	- 96	- 14	+ 86	- 168
1933	- 2	+ 26	+ 85	- 113
1934	+ 68	+ 46	+ 102	- 80
1935	+ 125	+ 62	+ 92	- 29
1936	+ 244	+ 122	+ 123	- 1
1937	+ 180	+ 135	+ 122	- 77
1938	+ 100	+ 127	+ 122	- 149
1939	+ 126	+ 137	+ 105	- 116
1940	+ 149	+ 343	+ 98	- 292
1941	+ 491	+ 734	+ 75	- 318
1942	+ 1,101	+ 1,223	+ 58	- 180
1943	+ 1,206	+ 1,149	+ 76	- 19
1944	+ 1,018	+ 746	+ 241	+ 31
1945	+ 1,546	+ 747	+ 763	+ 36
1946	+ 460	+ 500	+ 567	- 607
1947	+ 85	+ 633	+ 587	- 1,135
1948	+ 471	+ 486	+ 378	- 393
1949	+ 187	+ 439	+ 337	- 589
1950	- 329	+ 28	+ 46	- 403
1951	- 524	+ 220	+ 211	- 955

1. Excluding wheat exports diverted to other overseas countries, and exports of gold.
2. Including estimated wheat sold in European Countries.
3. Including all net exports of non-monetary gold.

Note. In the years 1942-1948 balances include exports of currently produced goods provided as Mutual Aid or Official Contributions (See also preceeding table).

TABLE 6. Summary Statistics on Canada's International Investment Position

A. Summary — Non-Resident Investments in Canada, 1926-1951

(Millions of dollars)

—	1926	1930	1939	1945	1946	1947	1948	1949[1]	1950[1]	1951[1,3]
Held in United Kingdom	2,636.3	2,766.3	2,475.9	1,750.0	1,668.0	1,631.0	1,593.0	1,694.0	1,723.0	1,772.0
Held in United States	3,196.3	4,659.5	4,151.4	4,990.0	5,157.0	5,200.0	5,566.0	5,905.0	6,565.0	7,235.0
Held in Other Countries	170.0	188.0	286.0	352.0	353.0	343.0	332.0	340.0	358.0	417.0
Total — Non-Resident Investments in Canada	**6,002.6**	**7,613.8**	**6,913.3**	**7,092.0**	**7,178.0**	**7,174.0**	**7,491.0**	**7,939.0**	**8,646.0**	**9,424.0**

B. Summary — Value of United States Direct Investments in Canada in Companies Controlled in the United States, by Forms of Investment, 1926-1950 (Included in Summary A)

(Millions of dollars)

—	1926	1930	1939	1945	1946	1947	1948	1949	1950
Capital Stocks	1,000.0	1,329.4	1,289.2	1,613.0	1,691.0	1,804.0	2,052.0	2,200.0	2,394.0
Bonds	187.6	336.3	305.8	292.0	320.0	306.0	309.0	339.0	357.0
Other Investments	214.9	327.0	285.9	399.0	417.0	438.0	446.0	556.0	691.0
Total	**1,402.5**	**1,992.7**	**1,880.9**	**2,304.0**	**2,428.0**	**2,548.0**	**2,807.0**	**3,095.0**	**3,442.0**

C. Summary — Canadian Assets Abroad, 1930-1951

(Excluding Investments of Insurance Companies)

(Millions of dollars)

—	1930	1939	1945	1946	1947	1948	1949	1950	1951
Direct Investments Outside of Canada	443	671	720	772	822	788	904	990[3]	2
Portfolio Holdings of Foreign Securities	842	719	621	551	579	605	638	598	578[3]
Government Credits	31	31	707	1,362	1,816	1,878	2,000	1,990	1,922
Net External Assets of Canadian Banks[2]	180	2	2	2	2	2	2	2	2
Official Balances Abroad and Gold	2	455	1,667	1,251	511	1,006	1,232	1,876	1,846
Total	**1,496**	**1,876**	**3,715**	**3,936**	**3,728**	**4,277**	**4,774**	**5,454**	2

1. Including Newfoundland.
2. Not available.
3. Tentative estimate.

Note. A more detailed analysis of British and Foreign Investments in Canada and Canadian Investments Abroad has been published in Canada's International Investment Position, Selected Years 1926 to 1949.

TABLE 7. Foreign Capital Invested in Canada, as at Year Ends, Representative Years, 1926 - 1950

Classification by Types of Investment

TOTAL NON-RESIDENT INVESTMENT IN CANADA

(Millions of dollars)

Types of Investment	1926	1930	1939	1945	1946	1947	1948	1949	1950
GOVERNMENT SECURITIES:									
Dominion	638.0	682.0	823.0	726.0	750.0	713.0	823.0	975.0	1,141.0
Provincial	421.6	592.3	536.0	624.0	594.0	551.0	528.0	534.0	565.0
Municipal	374.1	431.5	344.0	312.0	267.0	264.0	248.0	246.0	256.0
Total	**1,433.7**	**1,705.8**	**1,703.0**	**1,662.0**	**1,611.0**	**1,528.0**	**1,599.0**	**1,755.0**	**1,962.0**
PUBLIC UTILITIES:									
Railways	1,938.4	2,244.3	1,870.6	1,599.0	1,583.0	1,586.0	1,504.0	1,445.0	1,456.0
Other	394.5	633.4	549.4	494.0	557.0	473.0	468.0	494.0	543.0
Total	**2,332.9**	**2,877.7**	**2,420.0**	**2,093.0**	**2,140.0**	**2,059.0**	**1,972.0**	**1,939.0**	**1,999.0**
Manufacturing	1,198.3	1,573.0	1,445.2	1,829.0	1,895.0	2,029.0	2,317.0	2,539.0	2,763.0
Mining and Smelting	219.1	334.1	329.1	403.0	386.0	396.0	424.0	494.0	628.0
Merchandising	149.8	202.9	189.3	226.0	238.0	248.0	262.0	279.0	310.0
Financial Institutions	343.6	542.9	472.7	525.0	557.0	553.0	541.0	548.0	566.0
Other Enterprises	65.2	82.4	69.0	70.0	69.0	71.0	78.0	83.0	98.0
Miscellaneous Assets	260.0	295.0	285.0	284.0	282.0	290.0	298.0	302.0	320.0
Total Investment	**6,002.6**	**7,613.8**	**6,913.3**	**7,092.0**	**7,178.0**	**7,174.0**	**7,491.0**	**7,939.0**	**8,646.0**

TABLE 8. Foreign Capital Invested in Canada as at Year Ends, Representative Years, 1926 - 1950

Classification by Types of Investment

INVESTMENTS HELD IN THE UNITED KINGDOM

(Millions of dollars)

Types of Investment	1926	1930	1939	1945	1946	1947	1948	1949	1950
GOVERNMENT SECURITIES:									
Dominion	250.1	234.5	238.0	—	—	—	—	84.0	82.0
Provincial	72.6	69.3	58.0	45.0	37.0	35.0	33.0	41.0	39.0
Municipal	187.0	182.1	157.0	112.0	78.0	55.0	48.0	46.0	42.0
Total	**509.7**	**485.9**	**453.0**	**157.0**	**115.0**	**90.0**	**81.0**	**171.0**	**163.0**
PUBLIC UTILITIES:									
Railways	1,371.0	1,351.7	1,215.3	806.0	795.0	792.0	724.0	716.0	707.0
Other	96.6	99.7	89.3	90.0	85.0	72.0	69.0	66.0	65.0
Total	**1,467.6**	**1,451.4**	**1,304.6**	**896.0**	**880.0**	**864.0**	**793.0**	**782.0**	**772.0**
Manufacturing	234.4	274.7	257.3	301.0	295.0	307.0	340.0	396.0	444.0
Mining and Smelting	50.9	73.8	61.4	62.0	56.0	52.0	56.0	54.0	55.0
Merchandising	49.2	61.6	54.9	57.0	60.0	57.0	61.0	62.0	69.0
Financial Institutions	175.5	242.7	220.9	186.0	182.0	186.0	188.0	155.0	147.0
Other Enterprises	4.0	5.2	3.8	6.0	5.0	5.0	5.0	7.0	8.0
Miscellaneous Assets	145.0	171.0	120.0	85.0	75.0	70.0	69.0	67.0	65.0
Total Investment	**2,636.3**	**2,766.3**	**2,475.9**	**1,750.0**	**1,668.0**	**1,631.0**	**1,593.0**	**1,694.0**	**1,723.0**

TABLE 9. Foreign Capital Invested in Canada as at Year Ends, Representative Years, 1926-1950

Classification by Types of Investment

INVESTMENTS HELD IN THE UNITED STATES

(Millions of dollars)

Types of Investment	1926	1930	1939	1945	1946	1947	1948	1949	1950
GOVERNMENT SECURITIES:									
Dominion	381.9	440.5	567.0	682.0	701.0	665.0	775.0	844.0	1,009.0
Provincial	342.0	517.0	473.0	574.0	554.0	515.0	494.0	492.0	525.0
Municipal	185.1	247.4	181.0	194.0	183.0	207.0	198.0	198.0	212.0
Total	**909.0**	**1,204.9**	**1,221.0**	**1,450.0**	**1,438.0**	**1,387.0**	**1,467.0**	**1,534.0**	**1,746.0**
PUBLIC UTILITIES:									
Railways	510.4	832.6	588.3	720.0	717.0	724.0	718.0	664.0	685.0
Other	289.9	521.7	432.1	375.0	441.0	372.0	372.0	399.0	448.0
Total	**800.3**	**1,354.3**	**1,020.4**	**1,095.0**	**1,158.0**	**1,096.0**	**1,090.0**	**1,063.0**	**1,133.0**
Manufacturing	952.9	1,286.3	1,159.9	1,482.0	1,554.0	1,676.0	1,936.0	2,099.0	2,269.0
Mining and Smelting	165.2	255.3	250.7	322.0	311.0	324.0	347.0	416.0	546.0
Merchandising	98.6	137.3	129.4	164.0	173.0	185.0	194.0	211.0	231.0
Financial Institutions	125.1	251.2	200.8	285.0	321.0	312.0	297.0	338.0	362.0
Other Enterprises	60.2	76.2	64.2	62.0	62.0	65.0	72.0	74.0	88.0
Miscellaneous Assets	85.0	94.0	105.0	130.0	140.0	155.0	163.0	170.0	190.0
Total Investment	**3,196.3**	**4,659.5**	**4,151.4**	**4,990.0**	**5,157.0**	**5,200.0**	**5,566.0**	**5,905.0**	**6,565.0**

TABLE 10. Foreign Capital Invested in Canada as at Year Ends, Representative Years, 1926-1950

Classification by Types of Investment

INVESTMENTS HELD IN ALL OTHER COUNTRIES

(Millions of dollars)

Types of Investment	1926	1930	1939	1945	1946	1947	1948	1949	1950
GOVERNMENT SECURITIES:									
Dominion	6.0	7.0	18.0	44.0	49.0	48.0	48.0	47.0	50.0
Provincial	7.0	6.0	5.0	5.0	3.0	1.0	1.0	1.0	1.0
Municipal	2.0	2.0	6.0	6.0	6.0	2.0	2.0	2.0	2.0
Total	**15.0**	**15.0**	**29.0**	**55.0**	**58.0**	**51.0**	**51.0**	**50.0**	**53.0**
PUBLIC UTILITIES:									
Railways	57.0	60.0	67.0	73.0	71.0	70.0	62.0	65.0	64.0
Other	8.0	12.0	28.0	29.0	31.0	29.0	27.0	29.0	30.0
Total	**65.0**	**72.0**	**95.0**	**102.0**	**102.0**	**99.0**	**89.0**	**94.0**	**94.0**
Manufacturing	11.0	12.0	28.0	46.0	46.0	46.0	41.0	44.0	50.0
Mining and Smelting	3.0	5.0	17.0	19.0	19.0	20.0	21.0	24.0	27.0
Merchandising	2.0	4.0	5.0	5.0	5.0	6.0	7.0	6.0	10.0
Financial Institutions	43.0	49.0	51.0	54.0	54.0	55.0	56.0	55.0	57.0
Other Enterprises	1.0	1.0	1.0	2.0	2.0	1.0	1.0	2.0	2.0
Miscellaneous Assets	30.0	30.0	60.0	69.0	67.0	65.0	66.0	65.0	65.0
Total Investment	**170.0**	**188.0**	**286.0**	**352.0**	**353.0**	**343.0**	**332.0**	**340.0**	**358.0**

TABLE 11. Foreign Capital Invested in Canada, End of 1950
Classification by Countries of Origin and by Types of Security

(Millions of dollars)

Types of Security	United States [1]	United Kingdom [2]	Other Foreign Countries	Total Non-resident Investment
Bonds and Debentures:				
Dominions	1, 009	82	50	1, 141
Provincials	525	39	1	565
Municipals	212	42	2	256
Steam Railways	366	310	32	708
Other Corporations — controlled in Canada	176	21	14	211
Other Corporations — controlled outside of Canada	337	69	14	420
Total	**2, 625**	**563**	**113**	**3, 301**
Capital Stock of Canadian Companies:				
Companies controlled in Canada	635	594	97	1, 326
Companies controlled in the United States	2, 394	70	19	2, 483
Companies controlled in the United Kingdom	14	346	3	363
Companies controlled in other foreign countries	1	1	37	39
Total	**3, 044**	**1, 011**	**156**	**4, 211**
Other Corporation Assets:				
Companies controlled in Canada	13	1	—	14
Companies controlled in the United States	691	—	—	691
Companies controlled in the United Kingdom	1	83	1	85
Companies controlled in other foreign countries	1	—	23	24
Total	**706**	**84**	**24**	**814**
Miscellaneous Investments:				
Real estate, mortgages, assets administered for non-residents, private investment companies, etc.	190	65	65	320
Total	**6, 565**	**1, 723**	**358**	**8, 646**

1-2. Includes some investments held by nominees in the United Kingdom and the United States for residents of other countries.

TABLE 12. Value of United States Direct Investments [1] in All Canadian Businesses by Types of Business, Selected Years 1926 to 1950

(Millions of dollars)

Type of Business	Value of United States Investment								
	1926	1930	1939	1945	1946	1947	1948	1949	1950
Manufacturing, total	818	1, 041	984	1, 285	1, 366	1, 493	1, 729	1, 880	2, 033
Vegetable Products	69	94	96	140	146	155	179	182	193
Animal Products	18	38	47	44	42	46	49	55	58
Textiles	18	20	20	28	29	32	35	38	42
Wood and Paper Products	256	334	281	316	350	383	427	441	446
Iron and Products	180	199	188	272	283	312	346	378	420
Non-ferrous Metals	83	113	130	203	208	225	250	270	315
Non-metallic Minerals [2]	109	126	112	133	138	152	229	279	312
Chemicals and Allied Products	60	86	88	118	134	147	167	185	194
Miscellaneous Manufactures	25	31	22	31	36	41	47	52	53
Mining and Smelting [2]	141	210	198	255	245	254	275	331	450
Utilities	249	423	399	359	366	345	347	375	389
Merchandising	89	122	119	153	165	175	183	199	219
Financial	58	136	126	198	232	222	208	241	267
Miscellaneous	48	61	55	54	54	59	65	69	84
Total — All Companies	**1, 403**	**1, 993**	**1, 881**	**2, 304**	**2, 428**	**2, 548**	**2, 807**	**3, 095**	**3, 442**

1. Direct investments include branches, subsidiaries and controlled companies.
2. Investments in exploration and development of petroleum by Companies engaged principally in refining and production of petroleum products are included in the Non-metallic Minerals item of Manufacturing.

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